

SALEM MEDIA GROUP, INC. /DE/  
Form 10-K/A  
March 15, 2017

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

FORM 10-K/A

(Amendment No. 1)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 000-26497

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

**DELAWARE**

**77-0121400**

(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

**4880 SANTA ROSA ROAD**

**93012**

**CAMARILLO, CALIFORNIA**

( ZIP CODE)

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

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

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

## **EXPLANATORY NOTE**

This Amendment No. 1 to Form 10-K (this “Amendment”) amends the Annual Report on Form 10-K for Salem Media Group, Inc. for the year ended December 31, 2016, originally filed on March 10, 2017 (the “Original Report”). We are filing this Amendment solely to amend the audit report of SingerLewak LLP to correct a typographical error relating to the fiscal years covered by its audit report. Other than as set forth in this explanatory note, no other items in the Original Report are being revised by this Amendment.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Salem Media Group, Inc.

Camarillo, California

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

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

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

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

/s/ Crowe Horwath LLP

Sherman Oaks, California  
March 10, 2017

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Salem Media Group, Inc.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ SingerLewak LLP

Los Angeles, California  
March 11, 2016

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

|                                                                                                          | December 31, |           |
|----------------------------------------------------------------------------------------------------------|--------------|-----------|
|                                                                                                          | 2015         | 2016      |
| <b>ASSETS</b>                                                                                            |              |           |
| Current assets:                                                                                          |              |           |
| Cash and cash equivalents                                                                                | \$98         | \$130     |
| Trade accounts receivable (net of allowances of \$13,479 in 2015 and \$10,420 in 2016)                   | 37,181       | 37,260    |
| Other receivables (net of allowances of \$371 in 2015 and \$260 in 2016)                                 | 1,981        | 751       |
| Inventories (net of reserves of \$1,855 in 2015 and \$2,226 in 2016)                                     | 893          | 670       |
| Prepaid expenses                                                                                         | 6,285        | 6,287     |
| Deferred income taxes                                                                                    | 9,813        | 9,411     |
| Land held for sale                                                                                       | 1,700        | 1,000     |
| Total current assets                                                                                     | 57,951       | 55,509    |
| Notes receivable (net of allowance of \$528 in 2015 and \$564 in 2016)                                   | 173          | 65        |
| Property and equipment (net of accumulated depreciation of \$162,382 in 2015 and \$156,024 in 2016)      | 105,483      | 102,790   |
| Broadcast licenses                                                                                       | 393,031      | 388,517   |
| Goodwill                                                                                                 | 24,563       | 25,613    |
| Other indefinite-lived intangible assets                                                                 | 833          | 332       |
| Amortizable intangible assets (net of accumulated amortization of \$39,454 in 2015 and \$44,488 in 2016) | 11,481       | 14,408    |
| Deferred financing costs                                                                                 | 151          | 82        |
| Other assets                                                                                             | 2,500        | 2,952     |
| Total assets                                                                                             | \$596,166    | \$590,268 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                              |              |           |
| Current liabilities:                                                                                     |              |           |
| Accounts payable                                                                                         | \$5,177      | \$4,968   |
| Accrued expenses                                                                                         | 14,032       | 15,658    |
| Accrued compensation and related expenses                                                                | 8,297        | 8,133     |
| Accrued interest                                                                                         | 16           | 77        |
| Current portion of deferred revenue                                                                      | 11,549       | 9,491     |
| Income taxes payable                                                                                     | 73           | 223       |
| Current portion of long-term debt and capital lease obligations                                          | 5,662        | 590       |
| Total current liabilities                                                                                | 44,806       | 39,140    |
| Long-term debt and capital lease obligations, less current portion                                       | 269,093      | 261,084   |
| Fair value of interest rate swap                                                                         | 798          | 514       |
| Deferred income taxes                                                                                    | 57,082       | 60,769    |
| Deferred rent expense                                                                                    | 8,300        | 9,596     |
| Deferred revenue less current portion                                                                    | 5,630        | 5,252     |
| Other long-term liabilities                                                                              | 636          | 67        |

|                                                                                                                                                                                              |           |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Total liabilities                                                                                                                                                                            | 386,345   | 376,422   |
| Commitments and contingencies (Note 14)                                                                                                                                                      |           |           |
| Stockholders' Equity:                                                                                                                                                                        |           |           |
| Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,246,134 and 22,593,130 issued and 19,928,484 and 20,275,480 outstanding at December 31, 2015 and 2016, respectively | 223       | 226       |
| Class B common stock, \$0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2015 and 2016, respectively                                           | 56        | 56        |
| Additional paid-in capital                                                                                                                                                                   | 241,780   | 243,607   |
| Accumulated earnings                                                                                                                                                                         | 1,768     | 3,963     |
| Treasury stock, at cost (2,317,650 shares at December 31, 2015 and 2016)                                                                                                                     | (34,006 ) | (34,006 ) |
| Total stockholders' equity                                                                                                                                                                   | 209,821   | 213,846   |
| Total liabilities and stockholders' equity                                                                                                                                                   | \$596,166 | \$590,268 |

*See accompanying notes*

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

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

*See accompanying notes*



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

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

*See accompanying notes*

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

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

## SALEM MEDIA GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(Dollars in thousands)*

|                                                                                            | Year Ended December 31, |          |          |
|--------------------------------------------------------------------------------------------|-------------------------|----------|----------|
|                                                                                            | 2014                    | 2015     | 2016     |
| <b>OPERATING ACTIVITIES</b>                                                                |                         |          |          |
| Net income                                                                                 | \$5,475                 | \$11,150 | \$8,873  |
| Adjustments to reconcile net income to net cash provided by operating activities:          |                         |          |          |
| Non-cash stock-based compensation                                                          | 1,576                   | 771      | 582      |
| Tax benefit related to stock options exercised                                             | 120                     | 133      | 255      |
| Depreciation and amortization                                                              | 18,825                  | 17,741   | 17,276   |
| Amortization of deferred financing costs                                                   | 643                     | 628      | 631      |
| Accretion of financing items                                                               | 187                     | 188      | 206      |
| Accretion of acquisition-related deferred payments and contingent earn-out consideration   | 576                     | 349      | 70       |
| Provision for bad debts                                                                    | 3,026                   | 1,733    | 941      |
| Deferred income taxes                                                                      | 4,375                   | 6,313    | 4,089    |
| Impairment of long-lived assets                                                            | —                       | —        | 700      |
| Impairment of indefinite-lived long-term assets other than goodwill                        | 34                      | —        | 7,041    |
| Impairment of goodwill                                                                     | 45                      | 439      | 32       |
| Impairment of amortizable intangible assets                                                | —                       | —        | 8        |
| Change in the fair value of interest rate swap                                             | 2,702                   | 1,273    | (285 )   |
| Change in the estimated fair value of contingent earn-out consideration                    | 734                     | (1,715 ) | (689 )   |
| (Gain) loss on the sale or disposal of assets                                              | 251                     | 181      | (1,901 ) |
| Gain on bargain purchase                                                                   | —                       | (1,357 ) | (95 )    |
| Loss on early retirement of debt                                                           | 391                     | 41       | 87       |
| Changes in operating assets and liabilities:                                               |                         |          |          |
| Accounts receivable                                                                        | 4,101                   | 1,461    | 4,236    |
| Inventories                                                                                | (27 )                   | (307 )   | 223      |
| Prepaid expenses and other current assets                                                  | 237                     | (705 )   | (2 )     |
| Accounts payable and accrued expenses                                                      | 538                     | (6,482 ) | (819 )   |
| Deferred rent                                                                              | 643                     | 3,745    | 1,330    |
| Deferred revenue                                                                           | (1,414 )                | (72 )    | (4,106 ) |
| Other liabilities                                                                          | (1,125 )                | 703      | 33       |
| Income taxes payable                                                                       | 12                      | (81 )    | 150      |
| Net cash provided by operating activities                                                  | 41,925                  | 36,130   | 38,866   |
| <b>INVESTING ACTIVITIES</b>                                                                |                         |          |          |
| Cash paid for capital expenditures net of tenant improvement allowances                    | (9,363 )                | (8,833 ) | (9,414 ) |
| Capital expenditures reimbursable under tenant improvement allowances and trade agreements | (711 )                  | (3,034 ) | (620 )   |
| Escrow deposits related to acquisitions                                                    | (65 )                   | —        | (36 )    |
| Deposit received under option agreement for radio station sales                            | —                       | —        | 450      |

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|                                                   |          |           |          |
|---------------------------------------------------|----------|-----------|----------|
| Purchases of broadcast assets and radio stations  | (6,195 ) | (12,411 ) | (1,758 ) |
| Purchases of digital media businesses and assets  | (3,713 ) | (4,472 )  | (3,253 ) |
| Purchases of publishing businesses and assets     | (2,774 ) | —         | (3,403 ) |
| Proceeds from the sale of assets                  | 1,370    | 10        | 3,147    |
| Other                                             | (283 )   | (443 )    | (606 )   |
| Net cash used in investing activities             | (21,734) | (29,183)  | (15,493) |
| FINANCING ACTIVITIES                              |          |           |          |
| Payments under Term Loan B                        | (15,250) | (2,000 )  | (11,000) |
| Proceeds from borrowings under Revolver           | 56,510   | 60,219    | 43,909   |
| Payments on Revolver                              | (54,726) | (58,698)  | (46,738) |
| Payments of costs related to bank credit facility | (13 )    | —         | —        |

See accompanying notes

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

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

## Supplemental disclosures of cash flow information:

## Cash paid during the year for:

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

## Other supplemental disclosures of cash flow information:

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

## Non-cash investing and financing activities:

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

See accompanying notes

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

***Description of Business***

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

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

Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network™ (“SWN”) websites include Christian content websites: OnePlace.com, Christianity.com, Crosswalk.com®, GodVine.com,

CrossCards.com, LighSource.com, Jesus.org, BibleStudyTools.com, iBelieve.com, CCMmagazine.com and ChristianHeadlines.com,. Our conservative opinion websites, collectively known as Townhall Media, include Townhall.com™, HotAir.com, Twitchy.com, HumanEvents.com, RedState.com, and BearingArms.com. We also issue digital newsletters, including Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

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

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

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

### ***Cash and Cash Equivalents***

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

### ***Trade Accounts Receivable***

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

*Allowance for Doubtful Accounts*

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

### ***Inventory***

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

### ***Inventory Reserves***

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

### ***Property and Equipment***

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

| <b>Category</b>                             | <b>Estimated Life</b> |
|---------------------------------------------|-----------------------|
| Buildings                                   | 40 years              |
| Office furnishings and equipment            | 5 -10 years           |
| Antennae, towers and transmitting equipment | 10 - 20 years         |

|                                                 |                                               |
|-------------------------------------------------|-----------------------------------------------|
| Studio, production and mobile equipment         | 5 - 10 years                                  |
| Computer software and website development costs | 3 years                                       |
| Record and tape libraries                       | 3 years                                       |
| Automobiles                                     | 5 years                                       |
| Leasehold improvements                          | Lesser of useful life or remaining lease term |

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

### ***Internally Developed Software and Website Development Costs***

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

### ***Amortizable Intangible Assets***

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

| <b>Category</b>               | <b>Estimated Life</b>                 |
|-------------------------------|---------------------------------------|
| Customer lists and contracts  | Lesser of 5 years or life of contract |
| Domain and brand names        | 5 - 7 years                           |
| Favorable and assigned leases | Lease Term                            |
| Subscriber base and lists     | 3 - 7 years                           |
| Author relationships          | 1 - 7 years                           |
| Non-compete agreements        | 2 to 5 years                          |

The carrying value of our amortizable intangible assets are evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and businesses for indicators of impairment. In accordance with FASB ASC Topic 360 “*Property, Plant and Equipment*,” when indicators of impairment are present and the undiscounted cash flows estimated to be generated from these assets are less than the carrying amounts of these assets, an adjustment to reduce the carrying value to the fair market value of these assets is recorded, if necessary. During 2016, we recorded an impairment of approximately \$8,000 associated with amortizable assets within our wellness products business. See Note 2 – Impairment of Goodwill and Other Non-Amortizable Assets and Note 10 – Amortizable Intangible Assets. No adjustments to the carrying amounts of our amortizable intangible assets were necessary during the year’s ended December 31, 2015 or 2014.

### ***Broadcast Licenses***

In the case of our broadcast radio stations, we would not be able to operate the properties without the related FCC broadcast license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal fee that is expensed as incurred. We continually monitor our stations’ compliance with the various regulatory requirements that are necessary for FCC renewal and all of our broadcast licenses have been renewed at the end of their respective periods. We expect all of our broadcast licenses to be renewed in the future and therefore, we consider our broadcast licenses to be indefinite-lived intangible assets. The weighted-average period before the next renewal of our broadcasting licenses is 4.5 years.

We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. We perform our annual impairment testing during the fourth

quarter of each year, which coincides with our budget and planning process for the upcoming year.

The unit of accounting we use to test broadcast licenses is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. The cluster level is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results.

We perform a qualitative assessment for each of our broadcast market clusters. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

The first step of our qualitative assessment is to calculate excess fair value, or the amount by which our prior year estimated fair value exceeds the current year carrying value. We believe based on our analysis and review, including the financial performance of each market, that a 25% excess fair value margin is a conservative and reasonable benchmark for our qualitative analysis. Markets with an excess fair value of 25% or more, which have had no significant changes in the prior year assumptions and key estimates, are not likely to be impaired.

The second step of our qualitative assessment consists of a review of the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income (“SOI”) defined as net broadcast revenue less broadcast operating expenses. See Item 6 – Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value.

### ***Goodwill and Other Indefinite-Lived Intangible Assets***

We account for goodwill and other indefinite-lived intangible assets in accordance with FASB ASC Topic 350 “*Intangibles—Goodwill and Other*.” Approximately 70% of our total assets as of December 31, 2016, consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and mastheads account for the remaining 6%. We do not amortize goodwill and other indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.



The unit of accounting we use to test goodwill associated with our radio stations is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. Nineteen of our 34 market clusters have goodwill associated with them as of our annual testing period ending December 31, 2016.

The unit of accounting we use to test goodwill in our radio networks is the entity level, which includes Salem Radio Network® (“SRN”), SRN News Network (“SNN”), Today’s Christian Music (“TCM”) and Singing News Network (formerly Solid Gospel Network). The entity level is the level reviewed by management for which discreet financial information is available. One of our five networks has goodwill associated with it as of our annual testing period ending December 31, 2016.

The unit of accounting we use to test goodwill in our digital media segment is the entity level, which includes Salem Web Network, Townhall.com, Eagle Financial Publications and wellness products. The financial statements for Salem Web Network reflect the operating results and cash flows for all of our Internet sites and our church product sites exclusive of Townhall.com. The financial statements for Townhall.com reflect the operating results for each of our conservative opinion sites. Eagle Wellness includes only the results of the e-commerce site for nutritional products.

The unit of accounting we use to test goodwill in our publishing segment is the entity level, which includes Regnery Publishing, Xulon Press, and Hillcrest Media. Regnery Publishing is our book publishing entity based in Washington DC, with a stand-alone facility under one general manager, with operating results and cash flows of reported at the entity level. Xulon Press and Hillcrest Media also operate from a stand-alone facility in Orlando, Florida under one general manager who is responsible for the separately stated operating results and cash flows.

We perform a qualitative assessment to determine if events and circumstances have occurred that indicate it is more likely than not that the fair value of the assets in market cluster are less than their carrying values. We review the significant inputs used in our prior year fair value estimates to determine if any changes to those inputs should be made. We estimate fair value using a market approach and compare the estimated fair value of a market cluster to its carrying value, including goodwill. If the carrying amount, including goodwill, exceeds the estimated fair value of the market cluster, a potential indication exists that the amount of goodwill attributed to that market cluster may be impaired.

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

Future net free cash flows are calculated on a debt free basis and discounted to present value using a risk adjusted discount rate. The terminal year value is calculated using the Gordon constant growth method and long-term growth rate assumptions based on long-term industry growth and GDP inflation rates. The resulting fair value estimates, net of any interest bearing debt, are compared to the carrying value of each reporting units' net assets.

We estimate the fair value using a market approach and compare the estimated fair value of each entity to its carrying value, including goodwill. Under the market approach, we apply a multiple of four to each entities operating income to estimate the fair value. We believe that a multiple of four is a conservative indicator of fair value as described above.

If the carrying amount, including goodwill, exceeds the estimated fair value of the reporting unit, an indication exists that the amount of goodwill attributed to that entity may be impaired. When we have indication of impairment, we engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value. If the results of Step 1 indicate that the carrying value of a reporting unit exceeds its fair value, Step 2 is required. Under Step 2, the implied fair value of the reporting unit, including goodwill, is calculated to determine the amount of the impairment.

#### ***Other Indefinite-Lived Intangible Assets***

Mastheads consist of the graphic elements that identify our publications to readers and advertisers. These include customized typeset page headers, section headers, and column graphics as well as other name and identity stylized elements within the body of each publication. We test the value of mastheads as a single combined publishing entity as our print magazines operate from one shared facility under one general manager with operating results and cash flows reported on a combined basis for all publications. This is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results.

### ***Business Acquisitions***

We account for business acquisitions in accordance with the acquisition method of accounting as specified in FASB ASC Topic 805 “*Business Combinations*.” The total acquisition consideration is allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. The excess of consideration paid over the estimated fair values of the net assets acquired is recorded as goodwill and any excess of fair value of the net assets acquired over the consideration paid is recorded as a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued. We underwent such a reassessment, and as a result, recorded a gain on bargain purchase of \$0.1 million for KXFN-AM in St. Louis, Missouri during the year ended December 31, 2016. During the year ended December 31, 2015 recorded a gain on bargain purchase of \$1.4 million, including \$0.8 million for WSDZ-AM in St. Louis, Missouri, \$0.3 million for KDIZ-AM in Minneapolis, Minnesota, and \$0.3 million for WWMI-AM in Tampa, Florida. We believe that these gains on bargain purchase resulted from various factors that may have impacted the acquisition price, including, without limitation, that Disney was eager to divest of their Radio Disney properties in 2015 and the seller of WSDZ-AM was under a receivership.

Acquisitions may include contingent earn-out consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts. See Note 4 – Acquisitions and Recent Transactions and Note 5 – Contingent Earn-Out Consideration.

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

Property and equipment are recorded at their estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in unallocated corporate operating expenses.

### ***Contingent Earn-Out Consideration***

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

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent earn-out consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent earn-out consideration could cause a material impact and volatility in our operating results. See Note 5 – Contingent Earn-Out Consideration.

### ***Discontinued Operations***

We regularly review underperforming assets to determine if a sale or disposal might be a better way to monetize the assets. When a station, group of stations, or other asset group is considered for sale or disposal, we review the transaction to determine if or when the entity qualifies as a discontinued operation in accordance with the criteria of FASB ASC Topic 205-20 “*Discontinued Operations*.” In April 2014, the FASB issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under the new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity's operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. We elected to early-adopt the FASB guidance for discontinued operations issued in April 2014.

### ***Revenue Recognition***

Revenue is recognized as it is earned in accordance with applicable guidelines. We consider amounts to be earned once evidence of an arrangement has been obtained, services are performed, fees are fixed or determinable and collectability is reasonably assured.

We account for broadcast revenue from the sale of airtime for programs or spots as the program or advertisement is broadcast. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. Digital revenue is recognized upon delivery of page-views, delivery of impressions as specified in the contract, delivery of the digital newsletter or email, or upon delivery of the advertisement or programming content via streaming. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. Revenue from product sales and book sales are recognized upon shipment net of distribution fees and an allowance for sales returns. Revenues from advertisements in our print magazines are recognized upon delivery of the publication net of agency commissions, which are calculated as a stated percentage applied to gross billings. Subscription revenue from our print magazines and digital newsletters is recognized over the life of the related subscription.

### ***Multiple-Deliverables***

We enter bundled advertising agreements that may include cross-promotions such as advertisements on our radio stations, digital banners, print magazine placements, booth space at local events, or some combination thereof. The multiple deliverables contained in each agreement are accounted for separately over their respective delivery period provided that they are separate units of accounting. The selling price for each deliverable is based on vendor specific objective evidence, if available, or the estimated fair value of each deliverable. Objective evidence of the fair value includes the price charged for each element when sold separately or the price that we would transact if the deliverable is sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each agreement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

### ***Sales Returns***

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

### ***Barter Transactions***

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

We record barter revenue as it is earned, typically when the broadcast time is used or the digital advertisement is delivered. We record barter expense equal to the estimated fair value of the goods or services received upon receipt or usage of the items as applicable. Barter revenue included in broadcast revenue for the years ended December 31, 2016, 2015 and 2014 was approximately \$5.4 million, \$6.1 million and \$6.0 million, respectively. Barter expenses included in broadcast operating expense for the years ended December 31, 2016, 2015 and 2014 were approximately \$5.3 million, \$5.9 million and \$6.0 million, respectively. Barter revenue included in digital media revenue for the years ended December 31, 2016, 2015 and 2014 was approximately \$42,000, \$0.1 million and \$0.2 million, respectively. Barter expenses included in digital media operating expense for the years ended December 31, 2016, 2015 and 2014 were approximately \$34,000, \$0.1 million and \$0.1 million, respectively.

### ***Stock-Based Compensation***

We account for stock-based compensation under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "*Compensation—Stock Compensation*." We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of our options using the Black-Scholes option-pricing model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the options granted. The exercise price for options is equal to the closing market price of Salem Media Group common stock as of the date of grant. We use the straight-line attribution method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock awards, deferred tax assets for options and restricted stock awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. See Note 15 – Stock Incentive Plan.

### ***Advertising and Promotional Cost***

Costs of media advertising and associated production costs are expensed as incurred and amounted to approximately \$12.3 million, \$11.3 million and \$11.5 million for each of the years ending December 31, 2016, 2015 and 2014, respectively.

### ***Leases***

We lease broadcast towers, transmitter sites and office space throughout the United States. We review each lease agreement upon inception to determine the appropriate classification of the lease as a capital lease or operating lease based on the factors listed in FASB ASC Topic 840 “*Leases*.” Our current lease terms generally range from one to twenty-five years with rent expense recorded on a straight-line basis for financial reporting purposes. Where leases include rent holidays, rent escalations, rent concessions and leasehold improvement incentives, the value of these incentives are amortized over the lease term including anticipated renewal periods. Rent expense, exclusive of intercompany leases eliminated during consolidation, was \$15.3 million, \$14.8 million and \$13.8 million, respectively, for each of the years ended December 31, 2016, 2015 and 2014.

Deferred rental revenue was \$4.3 million as of December 31, 2016 compared to \$4.4 million as of the prior year.

### ***Leasehold Improvements***

We may construct or otherwise invest in leasehold improvements to properties. The costs of these leasehold improvements are capitalized and depreciated over the shorter of the estimated useful life of the improvement or the lease term including anticipated renewal periods.

### ***Partial Self-Insurance on Employee Health Plan***

We provide health insurance benefits to eligible employees under a self-insured plan whereby the company pays actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities that are subject to a high degree of variability due to unpredictable external factors such as future

inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was \$0.8 million and \$0.7 million at December 31, 2016 and 2015, respectively. Changes in the number and/or the amount of claims could cause a material impact and volatility in our operating results. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. While we had an unusually high level of claims in the third quarter of 2016 due to a larger than normal number of expensive claims, we believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

### ***Derivative Instruments***

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

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

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

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



### ***Fair Value Measurements and Disclosures***

As of December 31, 2016, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the company. See Note 12 – Fair Value Measurements and Disclosures.

### ***Long-term Debt and Debt Covenant Compliance***

Our classification of outstanding borrowings on our Term Loan B as long-term debt on our balance sheet is based on our assessment that, under the terms of our Credit Agreement and after considering our projected operating results and cash flows for the coming year, no principal payments are required to be made within the next twelve months. The Term Loan B has a term of seven years, maturing in March 2020. We are required to make principal payments of \$750,000 per quarter, which began on September 30, 2013; however, repayments may be made against the outstanding balance. Each repayment of the Term Loan B is applied ratably to each of the next four principal installments thereof in the direct order of maturity and thereafter to the remaining principal balance in reverse order of maturity.

Our projections of operating results and cash flows for the coming year are estimates dependent upon a number of factors including but not limited to developments in the markets in which we are operating in and varying economic and political factors. Accordingly, these projections are inherently uncertain and our actual results could differ from these estimates.

### ***Deferred Financing Costs***

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

arrangement.

We adopted ASU 2015-03, as amended by ASU 2015-15, as of the effective date of January 1, 2016. Debt issue costs are being amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. We chose to continue presentation of debt issue costs associated with our Revolver as an asset in accordance with ASU 2015-15. We have retrospectively accounted for the implementation of ASU 2015-03 and ASU 2015-15 as a change in accounting principle. Costs of the Revolver are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%.

### ***Income Tax Valuation Allowances (Deferred Taxes)***

We account for income taxes in accordance with FASB ASC Topic 740 “*Income Taxes*.” In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the tax implications are known. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

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

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

### *Income Taxes and Uncertain Tax Positions*

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

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

### *Effective Tax Rate*

Our provision for income tax as a percentage of operating income before taxes, or our effective tax rate, may be impacted by:

- (1) changes in the level of income in any of our taxing jurisdictions;
- (2) changes in statutes and rules applicable to taxable income in the jurisdictions in which we operate;
- (3) changes in the expected outcome of income tax audits;
- (4) changes in the estimate of expenses that are not deductible for tax purposes;
- (5) income taxes in certain states where the states' current taxable income is dependent on factors other than consolidated net income;
- (6) the addition of operations in states that on average have different income tax rates from states in which we currently operate, and
- (7) the effect of previously reported temporary differences between the and financial reporting bases of assets and liabilities.

Our annual effective tax rate may also be materially impacted by tax expense associated with non-amortizable assets such as broadcast licenses and goodwill as well as changes in the deferred tax valuation allowance. An impairment loss for financial statement purposes will result in an income tax benefit during the period incurred as the amortization of broadcasting licenses and goodwill is deductible for income tax purposes.

### ***Reserves for Royalty Advances***

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

### ***Contingency Reserves***

In the ordinary course of business, we are involved in various legal proceedings, lawsuits, arbitration and other claims which are complex in nature and have outcomes that are difficult to predict. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters.

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

While we believe that the final resolution of any known matters, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows, it is possible that we could incur additional losses. We maintain insurance that may provide coverage for such matters. Future claims against us, whether meritorious or not, could have a material adverse effect upon our consolidated financial position, results of operations or cash flows, including losses due to costly litigation and losses due to matters that require significant amounts of management time that can result in the diversion of significant operational resources. See Note 14 – Commitments and Contingencies.

### ***Gain or Loss on the Sale or Disposal of Assets***

We record gains or losses on the sale or disposal of assets equal to the proceeds, if any, as compared to the net book value. Exchange transactions are accounted for in accordance with FASB ASC Topic 845 “*Non-Monetary Transactions*.” During the year ended December 31, 2016, we recorded a \$1.9 million pre-tax gain which included a \$1.9 million gain on the sale of our Miami tower site and a \$0.7 million gain from a land easement in our South Carolina market offset by a \$0.4 million charge associated with leasehold improvements that were abandoned during the relocation of our offices in Washington D.C. market and various fixed asset disposals. During the year ended December 31, 2015, we recorded a \$0.2 million pre-tax loss which included a \$0.2 million charge associated with the relocation of our office and studio in our Seattle, Washington market offset by proceeds from various fixed asset and equipment disposals. During the year ended December 31, 2014, we recorded a \$0.3 million pre-tax loss which included a \$0.2 million loss associated with the write-off of a receivable from a prior station sale, a \$0.2 million loss from the sale of land and building in our Miami market, a \$0.1 million loss due to the relocation of our office and studio facility in our San Francisco market offset by \$0.1 million of insurance proceeds from a claim associated with one of our markets as well as other various fixed asset and equipment disposals.

***Basic and Diluted Net Earnings Per Share***

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

Options to purchase 1,720,000, 1,581,123 and 1,816,204 shares of Class A common stock were outstanding at December 31, 2016, 2015 and 2014, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. The number of anti-dilutive shares as of December 31, 2016, 2015 and 2014 was 795,378, 589,437, and 705,163, respectively.

The following table sets forth the shares used to compute basic and diluted net earnings per share for the periods indicated:

|                                                          | Year Ended December 31, |            |            |
|----------------------------------------------------------|-------------------------|------------|------------|
|                                                          | 2014                    | 2015       | 2016       |
| Weighted average shares                                  | 25,336,809              | 25,426,732 | 25,669,538 |
| Effect of dilutive securities - stock options            | 744,366                 | 461,087    | 365,452    |
| Weighted average shares adjusted for dilutive securities | 26,081,175              | 25,887,819 | 26,034,990 |

***Segments***

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

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



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

### ***Variable Interest Entities***

We may enter into agreements or investments with other entities that could qualify as variable interest entities (“VIEs”) in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 “*Consolidation*.” A VIE is consolidated in the financial statements if we are deemed to be the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE, either explicitly or implicitly. A VIE is an entity for which the primary beneficiary’s interest in the entity can change with variations in factors other than the amount of investment in the entity. We perform our evaluation for VIE’s upon entry into the agreement or investment. We re-evaluate the VIE when or if events occur that could change the status of the VIE.

We may enter into lease arrangements with entities controlled by our principal stockholders or other related parties. We believe that the requirements of FASB ASC Topic 810 do not apply to these entities because the lease arrangements do not contain explicit guarantees of the residual value of the real estate, do not contain purchase options or similar provisions and the leases are at terms that do not vary materially from leases that would have been available with unaffiliated parties. Additionally, we do not have an equity interest in the entities controlled by our principal stockholders or other related parties and we do not guarantee debt of the entities controlled by our principal stockholders or other related parties.

We also enter into Local Marketing Agreements (“LMAs”) or Time Brokerage Agreements (“TBAs”) contemporaneously with entering into an Asset Purchase Agreement (“APA”) to acquire or sell a radio station. Typically, both LMAs and TBAs are contractual agreements under which the station owner/licensee makes airtime available to a programmer/licensee in exchange for a fee and reimbursement of certain expenses. LMAs and TBAs are subject to compliance with the antitrust laws and the communications laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the communications laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the communications laws.

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of December 31, 2016, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

### ***Concentrations of Business Risks***

We derive a substantial part of our total revenues from the sale of advertising. For the years ended December 31, 2016, 2015 and 2014, 38.3%, 39.2% and 40.0% of our total broadcast revenues, respectively, were generated from the sale of broadcast advertising. We are particularly dependent on revenue from stations in the Los Angeles and Dallas markets, which generated 15.1% and 20.8% for the year ended December 31, 2016, 14.7% and 24.5% for the year ended December 31, 2015, and 14.3% and 24.0% for the year ended December 31, 2014. Because substantial portions of our revenues are derived from local advertisers in these key markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns.

### ***Concentrations of Credit Risks***

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents; trade accounts receivable and derivative instruments. We place our cash and cash equivalents with high quality financial institutions. Such balances may be in excess of the Federal Deposit Insurance Corporation insured limits. To manage the related credit exposure, we continually monitor the credit worthiness of the financial institutions where we have deposits. Concentrations of credit risk with respect to trade accounts receivable are limited due to the wide variety of customers and markets in which we provide services, as well as the dispersion of our operations across many geographic areas. We perform ongoing credit evaluations of our customers, but generally do not require collateral to support customer receivables. We establish an allowance for doubtful accounts based on various factors including the credit risk of specific customers, age of receivables outstanding, historical trends, economic conditions and other information. Historically, our bad debt expense has been within management's expectations.

## *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant areas for which management uses estimates include:

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

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

## *Reclassifications*

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the adoption of FASB Accounting Standards Update (“ASU”) 2015-03 and ASU 2015-15 and the reclassification of Salem Consumer Products from e-commerce (digital) to broadcast. Under ASU 2015-03 and 2015-15, debt issuance costs, with the exception of costs associated with obtaining line-of-credit arrangements, are reported as a reduction of the debt liability rather than as a deferred cost asset. The adoption of ASU

2015-03 and ASU 2015-15 is reported as a change in accounting principle and discussed in detail in Note 11 – Notes Payable. The reclassification of Salem Consumer Products, our e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities, was made to assess the performance of each network program based on all revenue sources. Refer to Note 20 – Segment Data for an explanation of this reclassification.

### ***Out-of-Period Adjustment***

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

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

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

### **Recent Accounting Pronouncements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In November 2015, the FASB issued ASU 2015-17, “*Balance Sheet Classification of Deferred Taxes*,” to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. Current GAAP requires an entity to

separate deferred income tax liabilities and assets into current and noncurrent amounts. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this ASU. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption is permitted. The adoption of ASU 2015-17 is not expected to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

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

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

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

We account for goodwill and other indefinite-lived intangible assets in accordance with FASB ASC Topic 350 “*Intangibles—Goodwill and Other*” that requires that we test for impairment at least annually or when events or circumstances indicates that they may be impaired. We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

### ***Broadcast Licenses***

We perform a qualitative assessment for each of our broadcast market clusters annually. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

The first step of our qualitative assessment is to calculate excess fair value, or the amount by which our prior year estimated fair value exceeds the current year carrying value. We believe based on our analysis and review, including the financial performance of each market, that a 25% excess fair value margin is a conservative and reasonable benchmark for our qualitative analysis. Markets with an excess fair value of 25% or more, which have had no significant changes in the prior year assumptions and key estimates, are not likely to be impaired.

Of the eleven markets for which an independent third party fair value appraisal was obtained in the prior year, three markets were subject to testing in the current year. The table below presents the percentage within a range by which our prior year start-up income estimated fair value exceeds the current year carrying value of our broadcasting licenses:

|                                                 | Geographic Market Clusters as of December 31, 2016                              |                  |                  |                  |
|-------------------------------------------------|---------------------------------------------------------------------------------|------------------|------------------|------------------|
|                                                 | Percentage Range By Which 2015 Estimated Fair Value Exceeds 2016 Carrying Value |                  |                  |                  |
|                                                 | ≤ 25%                                                                           | >26%-50%         | >50% to 75%      | > than 75%       |
| Number of accounting units                      | <b>3</b>                                                                        | <b>4</b>         | <b>1</b>         | <b>3</b>         |
| Broadcast license carrying value (in thousands) | <b>\$ 108,374</b>                                                               | <b>\$ 49,738</b> | <b>\$ 27,878</b> | <b>\$ 15,650</b> |

We performed a quantitative analysis for 22 of our market clusters for which we did not obtain an independent third party fair value appraisal during our prior year annual testing period and 1 newly acquired market for which the fair value had been previously estimated as of the acquisition date during the prior year.

The second step of our qualitative assessment consists of a review of the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income (“SOI”) defined as net broadcast revenue less broadcast operating expenses. See Item 6 – Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value. Using an SOI multiple to estimate fair value, we did not identify additional markets for further testing.

The table below shows the percentage within a range by which our estimated fair value exceeded the carrying value of our broadcasting licenses for these twenty three market clusters:

Geographic Market Clusters as of December 31, 2016

Tested due to length of time from prior valuation – Percentage Range by Which Prior

Valuation Exceeds 2016 Carrying Value

|                                                 | ≤ 25%             | >26%-50%         | >50% to 100%    | > than 100%     |
|-------------------------------------------------|-------------------|------------------|-----------------|-----------------|
| Number of accounting units                      | <b>13</b>         | <b>4</b>         | <b>2</b>        | <b>4</b>        |
| Broadcast license carrying value (in thousands) | <b>\$ 166,107</b> | <b>\$ 10,635</b> | <b>\$ 9,904</b> | <b>\$ 6,771</b> |

We engaged Noble Financial, an independent third-party appraisal and valuation firm, to assist us in estimating the fair value of broadcast licenses in 25 of our market clusters. The estimated fair value of each market cluster was determined using the Greenfield Method, a form of the income approach. The premise of the Greenfield Method is that the value of an FCC license is equivalent to a hypothetical start-up in which the only asset owned by the station as of the valuation date is the FCC license. This approach eliminates factors that are unique to the operation of the station, including its format and historical financial performance. The method then assumes the entity has to purchase, build, or rent all of the other assets needed to operate a comparable station to the one in which the FCC license is being utilized as of the valuation date. Cash flows are estimated and netted against all start-up costs, expenses and investments necessary to achieve a normalized and mature state of operations, thus reflecting only the cash flows directly attributable to the FCC License. A multi-year discounted cash flow approach is then used to determine the net present value of these cash flows to derive an indication of fair value. For cash flows beyond the projection period, a terminal value is calculated using the Gordon constant growth model and long-term industry growth rate assumptions based on long-term industry growth and Gross Domestic Product (“GDP”) inflation rates.

The primary assumptions used in the Greenfield Method are:

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

The assumptions used reflect those of a hypothetical market participant and not necessarily the actual or projected results of Salem. The key estimates and assumptions used in the start-up income valuation for our broadcast licenses were as follows:

| Broadcast Licenses                          | December 31, 2014 | December 31, 2015 | <b>December 31, 2016</b> |
|---------------------------------------------|-------------------|-------------------|--------------------------|
| Risk-adjusted discount rate                 | 8.0%              | 8.0%              | <b>8.5%</b>              |
| Operating profit margin ranges              | (13.9%) - 30.8%   | (13.9%) - 30.8%   | <b>(13.9%) - 30.8%</b>   |
| Long-term market revenue growth rate ranges | 1.5% - 2.5%       | 2.0%              | <b>1.9%</b>              |

The risk-adjusted discount rate reflects the Weighted Average Cost of Capital (“WACC”) developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis, we determined that the carrying value of broadcast licenses in four of our market clusters were deemed to be impaired as of the annual testing period ending December 31, 2016. We recorded an impairment charge of \$6.5 million to the value of broadcast licenses in Cleveland, Dallas-Ft Worth, Detroit and Portland. There were no impairment charges during the testing periods ending December 31, 2015 or 2014. The impairment charge was driven by an increase in the WACC during the year ended December 31, 2016 as compared to the prior year. We believe that these trends are indicative of trends in the industry as a whole and not unique to our company or operations.

The table below presents the results of our impairment testing under the income approach for the 2016 annual testing period. Markets with a negative excess fair value were impaired as of the balance sheet date with corresponding adjustments to the FCC license value recorded.

| Market Cluster  | Excess Fair Value<br>2016 Estimate |
|-----------------|------------------------------------|
| Atlanta, GA     | 6.6%                               |
| Cleveland, OH   | (6.4%)                             |
| Columbus, OH    | 47.1%                              |
| Dallas, TX      | (1.0%)                             |
| Denver, CO      | 765.2                              |
| Detroit, MI     | (3.3%)                             |
| Honolulu, HI    | 146.40%                            |
| Houston, TX     | 1,103.4%                           |
| Little Rock     | 345.4%                             |
| Los Angeles, CA | 390.7%                             |
| Louisville, KY  | 14.6%                              |
| Miami FL        | 29.1%                              |
| Nashville, TN   | 193.0%                             |

|                   |        |
|-------------------|--------|
| New York, NY      | 466.5% |
| Omaha NE          | 22.5%  |
| Philadelphia, PA  | 86.3%  |
| Phoenix, AZ       | 83.4%  |
| Pittsburgh, PA    | 348.4% |
| Portland, OR      | (9.6%) |
| San Antonio, TX   | 257.2% |
| San Diego, CA     | 37.8%  |
| San Francisco, CA | 21.8%  |
| Seattle, WA       | 309.6% |
| St Louis          | 261.2% |
| Washington, D.C.  | 107.2% |

### ***Mastheads***

We regularly perform quantitative reviews of our mastheads due to the low margin by which our estimated fair values have exceeded our carrying value, and ongoing operating results that have not met or exceeded our expectations. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the fair value of our mastheads using a Relief from Royalty method, a form of the income approach.

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

Pre-tax royalty income is based on a 10-year revenue forecast and assumed to carry on into perpetuity. Revenue beyond the projection period (terminal year) is based on estimated long-term industry growth rates. The analysis also incorporated the present value of the tax amortization benefit associated with the mastheads. The key estimates and assumptions are as follows:

| Mastheads                       | December 31, 2014 | December 31, 2015 | <b>December 31, 2016</b> |
|---------------------------------|-------------------|-------------------|--------------------------|
| Risk-adjusted discount rate     | 8.0%              | 8.0%              | <b>9.5%</b>              |
| Projected revenue growth ranges | (4.8%) – 1.4%     | 2.1% – 2.9%       | <b>(4.3%) – 1.2%</b>     |
| Royalty rate                    | 3.0%              | 3.0%              | <b>3.0%</b>              |

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis as of the December 2016 annual testing period, we recorded an impairment charge of \$0.5 million associated with the carrying value of mastheads. This impairment was driven by an increase in the WACC associated with the print magazine publishing business and declines in our forecasted revenue growth rates based on a continual erosion of operating results. The print magazine industry as a whole is impacted by the growth of digital-only publications, which are often free to readers or available at a significantly reduced cost to readers. We believe that the impairment is indicative of trends in the magazine publishing industry as a whole and is not unique to our company or publications.

### ***Goodwill – Broadcast Radio Stations***

Nineteen of our broadcast markets had goodwill associated with them as of December 31, 2016. Based on our review, we tested eight of these market clusters for impairment of goodwill during the annual testing period ending December 31, 2016. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise of value our market clusters for the purpose of testing goodwill for impairment.

The key estimates and assumptions used for our enterprise valuations are as follows:

|                                             | December 31, 2014 | December 31, 2015 | <b>December 31, 2016</b> |
|---------------------------------------------|-------------------|-------------------|--------------------------|
| Enterprise Valuations                       | Broadcast Markets | Broadcast Markets | <b>Broadcast Markets</b> |
| Risk-adjusted discount rate                 | 8.0%              | 8.0%              | <b>8.5%</b>              |
| Operating profit margin ranges              | 8.4% - 46.1%      | 49.7%             | <b>(18.5%) – 43.3%</b>   |
| Long-term revenue market growth rate ranges | 1.0% - 5.0%       | 2.0%              | <b>1.9%</b>              |

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis, we determined that no impairment charges were necessary to the carrying value of our broadcast market goodwill as of the annual testing period ending December 31, 2016, December 31, 2015, and December 31, 2014, respectively and that Step 2 was not necessary.

The tables below present the percentage within a range by which the estimated fair value exceeded the carrying value of each of our market clusters, including goodwill:

**Broadcast Market Clusters as of December 31, 2016**  
**Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill**

|                                                           | <b>&lt; 10%</b> | <b>&gt;10% to 20%</b> | <b>&gt;20% to 50%</b> | <b>&gt; than 50%</b> |
|-----------------------------------------------------------|-----------------|-----------------------|-----------------------|----------------------|
| Number of accounting units                                | <b>3</b>        | <b>3</b>              | <b>6</b>              | <b>7</b>             |
| Carrying value including goodwill ( <i>in thousands</i> ) | <b>93,978</b>   | <b>\$ 27,714</b>      | <b>\$ 124,464</b>     | <b>\$ 71,270</b>     |

**Broadcast Market Clusters as of December 31, 2015**  
**Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill**

|                                                           | <b>&lt; 10%</b> | <b>&gt;10% to 20%</b> | <b>&gt;20% to 50%</b> | <b>&gt; than 50%</b> |
|-----------------------------------------------------------|-----------------|-----------------------|-----------------------|----------------------|
| Number of accounting units                                | 3               | 3                     | 2                     | 11                   |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 56,179       | \$ 52,164             | \$ 37,570             | \$ 169,907           |

**Broadcast Market Clusters as of December 31, 2014**  
**Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill**

|                                                           | <b>&lt; 10%</b> | <b>&gt;10% to 20%</b> | <b>&gt;20% to 50%</b> | <b>&gt; than 50%</b> |
|-----------------------------------------------------------|-----------------|-----------------------|-----------------------|----------------------|
| Number of accounting units                                | 5               | ---                   | 2                     | 7                    |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 81,507       | \$ ---                | \$ 27,636             | \$ 84,693            |

***Goodwill – Broadcast Networks***

TCM, one of our five networks has goodwill associated with it as of our annual testing period ending December 31, 2016. We identified operating losses within TCM that indicated that the value of goodwill may be impaired. We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise of value our networks for the purpose of testing goodwill for impairment.

The key estimates and assumptions used for our enterprise valuations for each period tested are as follows:

|                                       | December 31, 2015  | <b>December 31, 2016</b>  |
|---------------------------------------|--------------------|---------------------------|
| <b>Enterprise Valuations</b>          | Broadcast Networks | <b>Broadcast Networks</b> |
| Risk-adjusted discount rate           | 9.0%               | <b>9.5%</b>               |
| Operating profit margin ranges        | (74.1) – (97.5%)   | <b>1.0% – 24.4%</b>       |
| Long-term revenue market growth rates | 2.0%               | <b>1.9%</b>               |

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on this review and analysis, we determined that the fair value of the reporting unit was more than the carrying value. No impairment charges were recorded and Step 2 was not necessary based on the results. We did not perform a sensitivity analysis for the current year certain key assumptions, as such changes in assumptions would have no impact on the carrying value of goodwill associated with our broadcast networks.

### ***Goodwill – Digital Media***

Five of our digital media businesses had goodwill associated with them as of our annual testing period ending December 31, 2016. We tested two of these entities for impairment based on an excess carrying value of less than 25%. The key estimates and assumptions used in the valuation of our digital media entities for each testing period are as follows:

|                                             | December 31, 2014 | December 31, 2015 | <b>December 31, 2016</b> |
|---------------------------------------------|-------------------|-------------------|--------------------------|
| Enterprise Valuation                        |                   |                   |                          |
| Risk adjusted discount rate                 | 8.0%              | 8.0% - 9.0%       | <b>8.5% - 9.5%</b>       |
| Operating profit margin ranges              | (7.4%) - 34.9%    | (8.9%) - 13.8%    | <b>(20.3%) - 8.2%</b>    |
| Long-term revenue market growth rate ranges | 2.50%             | 2.0 - 3.0%        | <b>1.9% - 2.5%</b>       |

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in the risk free rate and corporate borrowing interest rates during 2016 as compared to the prior year.

We engaged Noble Financial, an independent third-party appraisal firm, to assist us in estimating the enterprise of value these digital media businesses for the purpose of testing goodwill for impairment. Based on our review and analysis, we determined that the carrying value of our wellness business exceeded its fair value and Step 2 was necessary. Under Step 2, the implied fair value of the reporting unit, including goodwill, was estimated to determine the amount of the impairment. We recorded an impairment charge of \$32,000 to the carrying value of goodwill and an impairment charge of approximately \$8,000 to amortizable intangible assets. These impairment charges resulted from reductions in revenue forecasts for this business unit due to actual operating results to date that have not met expectations.

The table below presents the percentage within a range by which the estimated fair value exceeded the carrying value of our accounting units, including goodwill.

**Digital Media Entities as of December 31, 2016**

|                                                           | Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill |                 |                  |               |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|-----------------|------------------|---------------|
|                                                           | < 10%                                                                                    | >10% to 20%     | >20% to 50%      | > than 50%    |
| Number of accounting units                                | <b>2</b>                                                                                 | <b>1</b>        | <b>1</b>         | <b>1</b>      |
| Carrying value including goodwill ( <i>in thousands</i> ) | <b>\$ 811</b>                                                                            | <b>\$ 3,910</b> | <b>\$ 28,285</b> | <b>\$ 941</b> |

**Digital Media Entities as of December 31, 2015**

|                                                           | Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill |             |             |            |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|-------------|-------------|------------|
|                                                           | < 10%                                                                                    | >10% to 20% | >20% to 50% | > than 50% |
| Number of accounting units                                | 1                                                                                        | —           |             | 4          |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 4,488                                                                                 | \$ —        | \$          | \$ 29,126  |

**Digital Media Entities as of December 31, 2014**

|                                                           | Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill |             |             |            |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------|-------------|-------------|------------|
|                                                           | < 10%                                                                                    | >10% to 20% | >20% to 50% | > than 50% |
| Number of accounting units                                | 1                                                                                        | 1           | 1           | 1          |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 4,649                                                                                 | \$ 6,118    | \$ 385      | \$ 26,101  |

***Goodwill – Publishing***

Two of our publishing entities had goodwill associated with them as of the annual testing period ending December 31, 2016. Based on actual operating results that did not meet our annual projections, we engaged Noble Financial, an independent third-party appraisal firm to assist us with estimating the enterprise value of one of these entities for the purpose of testing goodwill for impairment. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up. The key estimates and assumptions used for our

enterprise valuations are as follows:

| <b>Enterprise Valuation</b>           | <b>December 31, 2014</b> | <b>December 31, 2014</b> | <b>December 31, 2016</b> |
|---------------------------------------|--------------------------|--------------------------|--------------------------|
| Risk adjusted discount rate           | 8.0%                     | 8.0%                     | <b>8.5%</b>              |
| Operating margin ranges               | 2.4% - 5.9%              | 4.2% – 6.2%              | <b>3.5% – 5.7%</b>       |
| Long-term revenue market growth rates | 1.5%                     | 2.0%                     | <b>1.9%</b>              |

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The increase in the WACC for the 2016 testing period as compared to 2015 was largely attributable to increases in corporate borrowing interest rates during 2016 within the composite mix of industry participants considered in the analysis.

Based on our review and analysis of the enterprise estimated fair value, we determined that no impairment charges were necessary to the carrying value of goodwill associated with our publishing entities as of the annual testing period ending December 31, 2016 and that Step 2 was not necessary.

The table below presents the percentage within a range by which the estimated fair value exceeded the carrying value of our accounting units, including goodwill.

| Publishing Accounting units as of December 31, 2016<br>Percentage Range By Which Estimated Fair Value Exceeds<br>Carrying<br>Value Including Goodwill |          |                |                |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|---------------|
|                                                                                                                                                       | < 10%    | >10%<br>to 20% | >20%<br>to 50% | > than<br>50% |
| Number of accounting units                                                                                                                            | 2        | —              | —              | —             |
| Carrying value including goodwill ( <i>in thousands</i> )                                                                                             | \$ 1,360 | \$ —           | \$ —           | \$ —          |

Publishing Accounting units as of December 31, 2015  
 Percentage Range By Which Estimated Fair Value Exceeds Carrying Value  
 Including Goodwill

|                                                           | < 10%  | >10%<br>to<br>20% | >20%<br>to<br>50% | > than 50% |
|-----------------------------------------------------------|--------|-------------------|-------------------|------------|
| Number of accounting units                                | 1      | —                 | —                 | 1          |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 854 | \$ —              | \$ —              | \$ 2,453   |

Publishing Accounting units as of December 31, 2014  
 Percentage Range By Which Estimated Fair Value Exceeds Carrying Value  
 Including Goodwill

|                                                           | < 10%    | >10%<br>to<br>20% | >20%<br>to<br>50% | > than 50% |
|-----------------------------------------------------------|----------|-------------------|-------------------|------------|
| Number of accounting units                                | 2        | —                 | —                 | 1          |
| Carrying value including goodwill ( <i>in thousands</i> ) | \$ 3,417 | \$ —              | \$ —              | \$ 2,314   |

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

### NOTE 3. IMPAIRMENT OF LONG-LIVED ASSETS

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

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

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

| Description                    | As of December 31, 2016 | Fair Value Measurements Using:<br>(Dollars in thousands) |                                         |                                           | Total Loss |
|--------------------------------|-------------------------|----------------------------------------------------------|-----------------------------------------|-------------------------------------------|------------|
|                                |                         | Quoted prices for identical assets (Level 1)             | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |            |
| Long-Lived Asset Held for Sale | \$ 1,000                |                                                          |                                         | \$ 1,000                                  | \$ (700 )  |

#### NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

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

##### Debt

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

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

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

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

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

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

## **Equity**

On December 7, 2016, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on December 31, 2016 to all Class A and Class B common stockholders of record as of December 19, 2016.

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

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

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

### **Acquisitions — Broadcast**

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

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

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

Our 2016 broadcast acquisitions include the following:

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

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

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

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

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

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

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

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

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

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

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

On October 20, 2016, we closed on the acquisition of radio station KXFN-AM in St. Louis, Missouri for \$190,000 in cash. The station was dark upon closing and launched on December 29, 2016. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the closing date and launch date, respectively.

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

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

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

On June 24, 2016, we entered into an LMA to operate radio station KTRB-AM in San Francisco, California beginning on July 1, 2016. The accompanying consolidated statements of operations included in this annual report on Form 10-K reflect the operating results of this entity as of the LMA date. On December 15, 2016, we entered into a new LMA to operate this station with East Bay Broadcasting, LLC, a related party.

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

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

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

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

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

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

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

## Acquisitions — Digital Media

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

ChristianConcertAlerts.com provides Christian artists' tour dates and events across the United States. The website features a location-based calendar that includes over 300 artists and 4,000 venues created by editors and user submissions, as well as artist reviews and album news.

On October 17, 2016, we purchased Historyonthenet.com and Authentichistory.com for \$0.1 million. These websites and related social media accounts are operated within our Salem Web Network platform.

On September 13, 2016, we acquired Mike Turner's line of investment products, including TurnerTrends.com, other domain names and related assets for \$0.4 million in cash and the assumption of \$0.1 million in deferred subscription liabilities. As part of the purchase agreement, we may pay up to an additional \$0.1 million in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Turner's investment products to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$66,000, which approximates the discounted present value due to the earn-out of less than one year. Turner's investment products offer stock trading advisory newsletters to individual subscribers. We recorded goodwill of approximately \$7,200 associated with the expected synergies to be realized upon combining the operations of Turner's line of investment products into our digital media platform with Eagle Financial Publications and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

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

On March 8, 2016, we acquired King James Bible mobile applications for \$4.0 million, of which \$2.7 million was paid in cash upon close and \$1.3 million is due in deferred installments within one year from the closing date. The deferred installments were amended on May 17, 2016 to include the \$0.3 million that was due upon finalization of banking arrangements with the deferred installments. The amended deferred payments of \$1.3 million now consist of \$0.6 million due within 90 days, \$0.3 million due within 180 days and two deferred payments of \$0.2 million each due 270 and 360 days from the closing date, respectively. During the year ended December 31, 2016, we have paid \$1.1 million in installments. We recorded goodwill of \$0.2 million associated with the expected synergies to be realized from combining the operations of these applications into our existing digital media platform. The

accompanying consolidated statement of operations reflects the operating results of King James Bible mobile applications as of the closing date within our digital media operating segment.

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

### **Acquisitions — Publishing**

On August 1, 2016, we acquired the assets of Hillcrest Media Group, Inc. for \$3.5 million and the assumption of \$1.0 million in deferred revenue liabilities. We paid \$3.3 million in cash upon close with the remaining \$0.2 million due within 90 days upon the finalization of deferred revenue obligations. Hillcrest Media provides self-publishing services for general market authors and will be operated within our existing Xulon Press business. We recorded goodwill of approximately \$0.8 million associated with the expected synergies to be realized upon combining the operations of Hillcrest Media into our existing publishing platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset.

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

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

| Acquisition Date   | Description                                                                                           | Total Consideration<br>(Dollars in<br>thousands) |
|--------------------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| December 31, 2016  | FM translator, Aurora, Florida (asset purchase)                                                       | \$ 50                                            |
| December 31, 2016  | FM translator, Port St. Lucie, Florida (asset purchase)                                               | 50                                               |
| December 14, 2016  | FM translator, Rhinelander, Wisconsin (asset purchase)                                                | 50                                               |
| December 8, 2016   | FM translator, Little Fish Lake Valley, California (asset purchase)                                   | 44                                               |
| December 1, 2016   | FM translator, Lake Placid, Florida (asset purchase)                                                  | 35                                               |
| December 1, 2016   | Christian Concerts Alerts, LLC (asset purchase)                                                       | 150                                              |
| November 22, 2016  | FM translator construction permit, Kihei, Hawaii (asset purchase)                                     | 55                                               |
| November 22, 2016  | FM translator construction permit, Lahaina, Hawaii (asset purchase)                                   | 55                                               |
| November 22, 2016  | FM translator, Crested Butte, Colorado (asset purchase)                                               | 39                                               |
| November 21, 2016  | FM translator, Dansville, New York (asset purchase)                                                   | 75                                               |
| November 21, 2016  | FM translator, Carbondale, Pennsylvania (asset purchase)                                              | 75                                               |
| November 11, 2016  | FM translator construction permit, Kingsville, Texas (asset purchase)                                 | 50                                               |
| November 7, 2016   | FM translator, Sebring, Florida (asset purchase)                                                      | 77                                               |
| October 20, 2016   | KXFN-AM, St. Louis, Missouri (business acquisition)                                                   | 190                                              |
| October 20, 2016   | FM translator construction permit, Angola, Indiana (asset purchase)                                   | 50                                               |
| October 20, 2016   | FM translator construction permit, Cofax, Indiana (asset purchase)                                    | 55                                               |
| October 20, 2016   | FM translator construction permit, Battle Creek, Michigan (asset purchase)                            | 50                                               |
| October 19, 2016   | FM translator construction permit Palm Coast, Florida purchased from a related party (asset purchase) | 65                                               |
| October 17, 2016   | Historyonthenet.com and Authentichistory.com (asset purchase)                                         | 85                                               |
| October 12, 2016   | FM translator Lake City, Florida purchased from a related party (asset purchase)                      | 65                                               |
| September 13, 2016 | Mike Turner's investment products and domain names (business acquisition)                             | 416                                              |
| August 1, 2016     | Hillcrest Media Group, Inc. (business acquisition)                                                    | 3,515                                            |

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|                |                                                                         |           |
|----------------|-------------------------------------------------------------------------|-----------|
| June 20, 2016  | FM translator, Columbus, Ohio (asset purchase)                          | 345       |
| June 10, 2016  | FM translator, Amherst, New York (asset purchase)                       | 60        |
| June 8, 2016   | FM translator construction permit, Charlotte, Michigan (asset purchase) | 50        |
| June 3, 2016   | FM translator construction permit, Atwood, Kentucky (asset purchase)    | 88        |
| May 13, 2016   | FM translator construction permit, Kerrville, Texas (asset purchase)    | 50        |
| May 2, 2016    | FM translator, Lincoln, Maine (asset purchase)                          | 100       |
| April 29, 2016 | FM translator construction permit, Emporia, Kansas (asset purchase)     | 25        |
| April 1, 2016  | Retirement Watch (business acquisition)                                 | 100       |
| March 8, 2016  | King James Bible mobile applications (business acquisition)             | 4,000     |
| Various        | Purchase of other domain names and assets (asset purchases)             | 6         |
|                |                                                                         | \$ 10,120 |

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

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

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

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with acquisitions, such as consulting and legal fees, are expensed as incurred in corporate operating expenses. We recognized total costs associated with acquisitions of \$0.5 million during the year ended December 31, 2016 compared to \$0.3 million during the prior year, which are included in unallocated corporate expenses in the accompanying consolidated statements of operations.



The total acquisition consideration is equal to the sum of all cash payments, the fair value of any deferred payments and promissory notes, and the present value of any estimated contingent earn-out consideration. We estimate the fair value of contingent earn-out consideration using a probability-weighted discounted cash flow model. The fair value measurement is based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Note 12 - Fair Value Measurements.

The following table summarizes the total acquisition consideration for the year ended December 31, 2016:

| Description                                                                | Total Consideration<br>(Dollars in thousands) |
|----------------------------------------------------------------------------|-----------------------------------------------|
| Cash payments made upon closing                                            | \$ 8,414                                      |
| Deferred payments                                                          | 1,640                                         |
| Present value of estimated fair value of contingent earn-out consideration | 66                                            |
| Total acquisition consideration                                            | \$ 10,120                                     |
| Gain on bargain purchase                                                   | 95                                            |
| Fair value of net assets acquired                                          | \$ 10,215                                     |

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

|                                                      | Net<br>Broadcast<br>Assets<br>Acquired<br>(Dollars in thousands) | Net Digital Media<br>Assets Acquired | Net Publishing<br>Assets Acquired | Net Total<br>Assets Acquired |
|------------------------------------------------------|------------------------------------------------------------------|--------------------------------------|-----------------------------------|------------------------------|
| Assets                                               |                                                                  |                                      |                                   |                              |
| Trade accounts receivable, net of allowances of \$42 | \$—                                                              | \$ —                                 | \$ 166                            | \$ 166                       |
| Property and equipment                               | 224                                                              | 405                                  | 271                               | 900                          |
| Broadcast licenses                                   | 1,719                                                            | —                                    | —                                 | 1,719                        |
| Goodwill                                             | —                                                                | 237                                  | 845                               | 1,082                        |
| Domain and brand names                               | —                                                                | 1,129                                | 2,121                             | 3,250                        |
| Customer lists and contracts                         | —                                                                | 2,576                                | —                                 | 2,576                        |
| Subscriber base and lists                            | —                                                                | 675                                  | —                                 | 675                          |
| Author relationships                                 | —                                                                | —                                    | 526                               | 526                          |
| Non-compete agreements                               | —                                                                | 289                                  | 716                               | 1,005                        |
| Liabilities                                          |                                                                  |                                      |                                   |                              |
| Deferred revenue                                     | —                                                                | (642)                                | (1,042)                           | (1,684)                      |
|                                                      | \$1,943                                                          | \$ 4,669                             | \$ 3,603                          | \$ 10,215                    |

## Divestitures

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

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

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

## Pending Transactions

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

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

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

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



During the year ended December 31, 2015, we completed or entered into the following transactions:

## **Debt**

On January 30, 2015, we repaid \$2.0 million in principal on our current senior secured credit facility, consisting of a term loan of \$300.0 million (“Term Loan B”) and paid interest due as of that date. We recorded a \$15,000 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$27,000 in bank loan fees associated with the principal repayment.

## **Equity**

On December 1, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on December 29, 2015 to all Class A and Class B common stockholders of record as of December 15, 2015.

On September 1, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on September 30, 2015 to all Class A and Class B common stockholders of record as of September 16, 2015.

On June 2, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.7 million was paid on June 30, 2015 to all Class A and Class B common stockholders of record as of June 16, 2015.

On March 5, 2015, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution of \$1.6 million was paid on March 31, 2015 to all Class A and Class B common stockholders of record as of March 17, 2015.

## **Acquisitions**

On December 18, 2015, we acquired radio station WSDZ-AM in St. Louis, Missouri, for \$0.3 million in cash. We recorded a gain on bargain purchase of approximately \$0.8 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 15, 2015, we acquired radio station KDIZ-AM in Minneapolis, Minnesota, for \$0.4 million in cash. We recorded a gain on bargain purchase of approximately \$0.3 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 11, 2015, we acquired radio station WWMI-AM in Tampa, Florida, for \$0.8 million in cash. We recorded a gain on bargain purchase of approximately \$0.3 million associated with this acquisition based on the estimated fair value of the net assets acquired as compared to our purchase price consideration. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 8, 2015, we acquired radio station KDDZ-AM in Denver, Colorado, for \$0.6 million in cash. We recorded goodwill of approximately \$9,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On December 7, 2015, we acquired the Instapray mobile applications and a related website for \$0.1 million in cash.

On December 4, 2015, we acquired radio station KDZR-AM in Portland, Oregon, for \$0.3 million in cash. We recorded goodwill of approximately \$9,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On October 29, 2015, we acquired DividendYieldHunter.com for \$42,500 in cash, with \$21,250 paid at closing and \$21,250 payable in January 2016. DividendYieldHunter.com provides individuals with information about different classes of dividend-paying stocks including preferred stocks, bonds, Master Limited Partnerships (MLPs), Real Estate Investment Trusts (REITs) and more.



On October 1, 2015, we acquired radio station KKSP-FM in Little Rock, Arkansas for \$1.5 million in cash. We recorded goodwill of approximately \$16,000 associated with the going concern value of this radio station and expected synergies to be realized from combining the operations of this station into our existing cluster in this market. We began programming this station under a TBA as of April 1, 2015. The accompanying consolidated statements of operations reflect the operating results of this station as of TBA date within the broadcast operating segment.

On September 15, 2015, we acquired radio station KEXB-AM (formerly KMKI-AM) in Dallas, Texas, for \$3.0 million in cash. We recorded goodwill of approximately \$12,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On September 10, 2015, we acquired radio station WBIX-AM (formerly WMKI-AM) in Boston, Massachusetts, for \$0.5 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On September 3, 2015, we acquired a Spanish Bible mobile applications and its related website and Facebook properties for \$0.5 million in cash. We recorded goodwill of approximately \$10,000 associated with the expected synergies to be realized from combining the operations of the Spanish Bible mobile applications into our digital media platform. The accompanying consolidated statements of operations reflect the operating results of these applications as of the closing date within the digital media operating segment.

On September 1, 2015, we acquired the DailyBible mobile applications, including all content, code and functionality, for \$1.5 million in cash. We recorded goodwill of approximately \$45,000 associated with the expected synergies to be realized from combining the operations of the DailyBible mobile applications into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating results of these applications as of the closing date within the digital media operating segment.

On July 1, 2015, we acquired DividendInvestor.com for \$1.0 million in cash and the assumption of \$70,000 in deferred subscription liabilities. DividendInvestor.com is a website offering stock screening tools and dividend information for individual subscribers to obtain dividend information and data. We recorded goodwill of approximately \$82,000 associated with the expected synergies to be realized from combining the operations of DividendInvestor.com into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating

results of this business as of the closing date within the digital media operating segment.

On June 4, 2015, we acquired the Gene Smart Wellness e-commerce website for \$0.1 million in cash. Gene Smart Wellness products are complementary to our Eagle Wellness Products and are reported as digital revenue in our operating results as of the date of acquisition.

On May 12, 2015, we acquired radio station WPGP-AM (formerly WDDZ-AM) in Pittsburgh, Pennsylvania, for \$1.0 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On May 7, 2015, we acquired radio station WDWD-AM in Atlanta, Georgia, for \$2.8 million in cash. We recorded goodwill of approximately \$5,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment.

On May 6, 2015, we acquired domain names, mobile applications and code functionality for the Daily Bible Devotion for \$1.1 million in cash. Under terms of the APA, we may pay up to an additional \$0.3 million in contingent earn-out consideration payable over the next two years based upon on the achievement of certain benchmarks. The estimated fair value of the contingent earn-out consideration was recorded at the present value of \$0.1 million and is discussed in more detail in Note 5. We recorded goodwill of \$0.1 million associated with the expected synergies to be realized from combining the operations of the Daily Bible Devotional into our digital media platform and brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying consolidated statements of operations reflect the operating results of the Daily Bible Devotional as of the closing date within our digital media operating segment.

On April 7, 2015, we acquired land and real estate in Greenville, South Carolina, for \$0.2 million in cash.

On March 27, 2015, we acquired radio station WXYZ-AM in Orlando, Florida, for \$1.3 million in cash. We began operating this station under an APA as of December 10, 2014. We recorded goodwill of approximately \$3,000 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying consolidated statements of operations reflect the operating results of this station as of the APA date within the broadcast operating segment.

On February 6, 2015, we acquired Bryan Perry's Cash Machine and Bryan Perry's Premium Income financial publications ("Bryan Perry Newsletters") with assets valued at \$0.6 million and we assumed deferred subscription liabilities of \$0.4 million. We paid no cash to the seller upon closing. We recorded goodwill of approximately \$3,000 associated with the expected synergies to be realized from combining the operations of Bryan Perry Newsletters into our digital media platform. Future amounts payable to the seller are contingent upon net subscriber revenues over a two year period from the closing date, of which we will pay the seller 50%. There is no minimum or maximum contractual amount. The estimated fair value of the contingent earn-out consideration was recorded at the present value of \$0.2 million and is discussed in more detail in Note 5. The accompanying consolidated statements of operations reflect the operating results of the Bryan Perry newsletters as of the closing date within our digital media operating segment.

Throughout the year ended December 31, 2015, we acquired other domain names and assets associated with our digital media operating segment for approximately \$0.1 million in cash.

A summary of our business acquisitions and asset purchases for the year ended December 31, 2015, none of which were individually or in the aggregate material to our consolidated financial position as of the respective date of acquisition, is as follows:

| Acquisition Date   | Description                                                              | Total Consideration<br>(Dollars in<br>thousands) |
|--------------------|--------------------------------------------------------------------------|--------------------------------------------------|
| December 18, 2015  | WSDZ-AM, St. Louis, Missouri (business acquisition)                      | \$ 275                                           |
| December 15, 2015  | KDIZ-AM, Minneapolis, Minnesota (business acquisition)                   | 375                                              |
| December 11, 2015  | WWMI-AM, Tampa, Florida (business acquisition)                           | 750                                              |
| December 8, 2015   | KDDZ-AM, Denver, Colorado (business acquisition)                         | 550                                              |
| December 7, 2015   | Instapray mobile applications (asset acquisition)                        | 118                                              |
| December 4, 2015   | KDZR-AM, Portland, Oregon (business acquisition)                         | 275                                              |
| October 29, 2015   | DividendYieldHunter.com (asset acquisition)                              | 43                                               |
| October 1, 2015    | KKSP-FM, Little Rock, Arkansas (business acquisition)                    | 1,500                                            |
| September 15, 2015 | KEXB-AM (formerly KMKI-AM) Dallas, Texas (business acquisition)          | 3,000                                            |
| September 10, 2015 | WBIX-AM (formerly WMKI-AM), Boston, Massachusetts (business acquisition) | 500                                              |
| September 3, 2015  | Spanish Bible mobile applications (business acquisition)                 | 500                                              |
| September 1, 2015  | DailyBible mobile applications (business acquisition)                    | 1,500                                            |
| July 1, 2015       | DividendInvestor.com (business acquisition)                              | 1,000                                            |

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|                  |                                                                             |           |
|------------------|-----------------------------------------------------------------------------|-----------|
| June 4, 2015     | Gene Smart Wellness (asset acquisition)                                     | 100       |
| May 12, 2015     | WPGP-AM (formerly WDDZ-AM), Pittsburgh, Pennsylvania (business acquisition) | 1,000     |
| May 7, 2015      | WDWD-AM, Atlanta, Georgia (business acquisition)                            | 2,750     |
| May 6, 2015      | Daily Bible Devotion mobile applications (business acquisition)             | 1,242     |
| April 7, 2015    | Land and Studio Building, Greenville, South Carolina (asset purchase)       | 201       |
| March 27, 2015   | WDYZ-AM, Orlando, Florida (business acquisition)                            | 1,300     |
| February 6, 2015 | Bryan Perry Newsletters (business acquisition)                              | 158       |
| Various          | Purchase of domain names and digital media assets (asset purchases)         | 134       |
|                  |                                                                             | \$ 17,271 |

The following table summarizes the total acquisition consideration for the year ended December 31, 2015:

| Description                                                                      | Total Consideration<br>(Dollars in thousands) |
|----------------------------------------------------------------------------------|-----------------------------------------------|
| Cash payments                                                                    | \$ 16,885                                     |
| Escrow deposits paid in prior years                                              | 65                                            |
| Cash payment due January 2016                                                    | 21                                            |
| Present value of estimated fair value contingent earn out consideration due 2016 | 176                                           |
| Present value of estimated fair value contingent earn out consideration due 2017 | 124                                           |
| Total acquisition consideration                                                  | \$ 17,271                                     |
| Gain on bargain purchase                                                         | 1,357                                         |
| Fair value of net assets acquired                                                | \$ 18,628                                     |

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

|                                      | Net Broadcast Assets Acquired | Net Digital Media Assets Acquired | Net Assets Acquired |
|--------------------------------------|-------------------------------|-----------------------------------|---------------------|
|                                      | (Dollars in thousands)        |                                   |                     |
| Assets                               |                               |                                   |                     |
| Property and equipment               | \$7,845                       | 649                               | 8,494               |
| Broadcast licenses                   | 5,923                         | —                                 | 5,923               |
| Goodwill                             | 64                            | 254                               | 318                 |
| Customer lists and contracts         | —                             | 99                                | 99                  |
| Domain and brand names               | —                             | 1,154                             | 1,154               |
| Subscriber base and lists            | —                             | 3,011                             | 3,011               |
| Non-compete agreements               | —                             | 146                               | 146                 |
| Liabilities                          |                               |                                   |                     |
| Deferred revenue liabilities assumed | —                             | (517)                             | (517)               |
|                                      | \$13,832                      | 4,796                             | 18,628              |

#### NOTE 5. CONTINGENT EARN-OUT CONSIDERATION

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. The fair value of the contingent earn-out consideration is estimated as of the acquisition date at the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. The present value of the expected future payouts is accreted to interest expense over the earn-out period. The fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The unobservable inputs are defined in FASB ASC Topic 820, “*Fair Value Measurements and Disclosures*,” as Level 3 inputs discussed in detail in Note 12.

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable. Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

#### Turner Investment Products

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

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual subscriber revenues achieved and projected to the estimated subscriber revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of \$0.1 million. During the period ending December 31, 2016, we recorded a net decrease of \$18,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

### **Daily Bible Devotion**

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

We review the fair value of the contingent earn-out consideration quarterly over the two-year earn-out period to compare actual cumulative sessions achieved to the estimated cumulative sessions used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract, or \$0.3 million less amounts paid or expired to date. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the year ended December 31, 2016, we paid a total of \$75,000 to the seller as contingent earn-out consideration for achieving benchmarks during the earn-out period to date, which was less than our original estimates. Due to declines in the cumulative sessions achieved during the year ended December 31, 2016, we recorded a net decrease of \$114,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

### **Bryan Perry Newsletters**

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

We review the fair value of the contingent earn-out consideration quarterly over the two year earn-out period to compare actual subscription revenue earned to the estimated subscription revenue used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period they are identified. Changes in the fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results. During the year ended December 31, 2016, we paid a total of \$36,000 to the seller as contingent earn-out consideration for amounts earned, which was less than our original estimates. Due to declines in the number of subscriptions renewed during the year ended December 31, 2016, we recorded a net decrease of \$14,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

### **Eagle Publishing**

On January 10, 2014, we acquired the entities of Eagle Publishing, including Regnery Publishing, HumanEvents.com, RedState.com, Eagle Financial Publications and Eagle Wellness. The base purchase price was \$8.5 million, with \$3.5 million paid in cash upon closing, and deferred payments of \$2.5 million each due January 2015 and January 2016. As

part of the purchase agreement, we may pay up to an additional \$8.5 million of contingent earn-out consideration during the three year period from the closing date based upon the achievement of certain revenue benchmarks established for calendar years 2014, 2015 and 2016 for each of the Eagle entities. Using a probability-weighted discounted cash flow model based on the likelihood of achievement of the benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$2.4 million, which was recorded at the discounted present value of \$2.0 million. The discount was accreted to interest expense over the three-year earn-out period. We paid a total of \$0.9 million in cash for amounts due under the contingent earn-out over the three year earn out period and recognized a \$1.4 million net decrease in the contingent earn-out estimates over the term.

### **Twitchy.com**

On December 10, 2013, we acquired Twitchy.com for \$0.9 million in cash paid upon closing and up to \$1.3 million in contingent earn-out consideration payable over a two-year period based upon the achievement of future page view targets. Using a probability-weighted discounted cash flow model based on the likelihood of achievement of the benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$0.8 million, which was recorded at the discounted present value of \$0.6 million. The discount was accreted to interest expense over the two-year earn out period ending December 31, 2015. We believe that our experience with digital content and websites provided a reasonable basis for our estimates.

The fair value of the contingent earn-out consideration was reviewed quarterly over the two year earn-out period. Changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified. Our results of operations for the years ending December 31, 2014 and 2015 reflect an increase of \$0.3 million and a decrease of \$0.5 million, respectively, for changes in the estimated fair value of the contingent earn-out consideration based upon actual page views that differed from those estimated in our forecasts. Declines in page views during the second half of 2015 were greater than in other periods which we believe resulted from changes in the Facebook algorithm that drives traffic to our sites. We paid a total of \$0.6 million in cash for amounts due under the contingent earn-out over the two-year period.

The following table reflects the changes in the present value of our acquisition-related estimated contingent earn-out consideration for the years ending December 31, 2016 and 2015.

|                                                                           | Twelve Months Ended December 31, 2016 |                                |             |
|---------------------------------------------------------------------------|---------------------------------------|--------------------------------|-------------|
|                                                                           | Short-Term<br>Accrued<br>Expenses     | Long-Term<br>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        | 17                                    | 8                              | 25          |
| Change in the estimated fair value of contingent earn-out consideration   | (635 )                                | (54 )                          | (689 )      |
| Reclassification of payments due in next 12 months to short-term Payments | 556<br>(111 )                         | (556 )<br>—                    | —<br>(111 ) |
| Ending Balance as of December 31, 2016                                    | \$ 66                                 | \$ —                           | \$ 66       |

  

|                                                                           | Twelve Months Ended December 31, 2015 |                                |               |
|---------------------------------------------------------------------------|---------------------------------------|--------------------------------|---------------|
|                                                                           | Short-Term<br>Accrued<br>Expenses     | Long-Term<br>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        | 60                                    | 49                             | 109           |
| Change in the estimated fair value of contingent earn-out consideration   | (1,269 )                              | (446 )                         | (1,715 )      |
| Reclassification of payments due in next 12 months to short-term Payments | 835<br>(1,204 )                       | (835 )<br>—                    | —<br>(1,204 ) |
| Ending Balance as of December 31, 2015                                    | \$ 173                                | \$ 602                         | \$ 775        |

## NOTE 6. INVENTORIES

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

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

|                                               | As of<br>December<br>31, 2015 | As of December 31, 2016 |
|-----------------------------------------------|-------------------------------|-------------------------|
|                                               | (Dollars in thousands)        |                         |
| Regnery Publishing book inventories           | \$ 2,186                      | \$ 2,473                |
| Reserve for obsolescence – Regnery Publishing | (1,798 )                      | (2,104 )                |
| Inventory, net - Regnery Publishing           | 388                           | 369                     |
| Wellness products                             | \$ 562                        | \$ 423                  |
| Reserve for obsolescence – Wellness products  | (57 )                         | (122 )                  |
| Inventory, net - Wellness products            | 505                           | 301                     |
| Consolidated inventories, net                 | \$ 893                        | \$ 670                  |

## NOTE 7. BROADCAST LICENSES

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

| Broadcast Licenses                                                | As of<br>December<br>31, 2015 | As of December 31, 2016 |
|-------------------------------------------------------------------|-------------------------------|-------------------------|
|                                                                   | (Dollars in thousands)        |                         |
| Balance, beginning of period before cumulative loss on impairment | \$ 484,727                    | \$ 492,032              |
| Accumulated loss on impairment                                    | (99,001 )                     | (99,001 )               |
| Balance, beginning of period after cumulative loss on impairment  | 385,726                       | 393,031                 |
| Acquisitions of radio stations                                    | 5,923                         | 74                      |
| Acquisitions of FM translators                                    | 276                           | 1,645                   |
| Capital projects to improve broadcast signal and strength         | 1,106                         | 307                     |
| Impairments based on estimated fair value of broadcast licenses   | —                             | (6,540 )                |
| Balance, end of period before cumulative loss on impairment       | \$ 492,032                    | \$ 494,058              |
| Accumulated loss on impairment                                    | (99,001 )                     | (105,541 )              |
| Balance, end of period after cumulative loss on impairment        | \$ 393,031                    | \$ 388,517              |

**NOTE 8. GOODWILL**

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

| Goodwill                                                           | As of December 31,     |           |
|--------------------------------------------------------------------|------------------------|-----------|
|                                                                    | 31, 2015               | 2016      |
|                                                                    | (Dollars in thousands) |           |
| Balance, beginning of period before cumulative loss on impairment, | \$26,242               | \$ 26,560 |
| Accumulated loss on impairment                                     | (1,558 )               | (1,997 )  |
| Balance, beginning of period after cumulative loss on impairment   | 24,684                 | 24,563    |
| Acquisitions of radio stations                                     | 64                     | —         |
| Acquisitions of digital media entities                             | 254                    | 237       |
| Acquisitions of publishing entities                                | —                      | 845       |
| Impairment charge during year                                      | (439 )                 | (32 )     |
| Balance, end of period before cumulative loss on impairment        | 26,560                 | 27,642    |
| Accumulated loss on impairment                                     | (1,997 )               | (2,029 )  |
| Ending period balance                                              | \$24,563               | \$ 25,613 |

**NOTE 9. PROPERTY AND EQUIPMENT**

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

|                                                                             | As of December 31,     |          |
|-----------------------------------------------------------------------------|------------------------|----------|
|                                                                             | 2015                   | 2016     |
|                                                                             | (Dollars in thousands) |          |
| Land                                                                        | \$32,679               | \$32,402 |
| Buildings                                                                   | 29,099                 | 29,070   |
| Office furnishings and equipment                                            | 39,071                 | 37,386   |
| Office furnishings and equipment under capital lease obligations            | 228                    | 228      |
| Antennae, towers and transmitting equipment                                 | 83,943                 | 84,144   |
| Antennae, towers and transmitting equipment under capital lease obligations | 795                    | 795      |
| Studio, production and mobile equipment                                     | 30,598                 | 28,668   |
| Computer software and website development costs                             | 28,134                 | 20,042   |
| Record and tape libraries                                                   | 55                     | 27       |
| Automobiles                                                                 | 1,298                  | 1,373    |
| Leasehold improvements                                                      | 15,333                 | 14,696   |
| Construction-in-progress                                                    | 6,632                  | 9,983    |

|                               |           |           |
|-------------------------------|-----------|-----------|
|                               | \$267,865 | \$258,814 |
| Less accumulated depreciation | (162,382) | (156,024) |
|                               | \$105,483 | \$102,790 |

Depreciation expense was approximately \$12.2 million, \$12.4 million and \$12.6 million for the years ended December 31, 2016, 2015, and 2014, respectively, which includes depreciation of \$53,000 for each of these years on a radio station tower valued at \$0.8 million under a capital lease obligation. Accumulated depreciation associated with the capital lease was \$517,000, \$464,000 and \$411,000 at December 31, 2016, 2015 and 2014, respectively.

#### NOTE 10. AMORTIZABLE INTANGIBLE ASSETS

The following tables provide a summary of our significant classes of amortizable intangible assets:

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

|                                     | As of December 31, 2015 |                             |           |
|-------------------------------------|-------------------------|-----------------------------|-----------|
|                                     | Cost                    | Accumulated<br>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 |

Amortization expense was approximately \$5.1 million, \$5.3 million and \$6.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. Based on the amortizable intangible assets as of December 31, 2016, we estimate amortization expense for the next five years to be as follows:

| Year ended December 31, | Amortization<br>Expense<br>(Dollars in<br>thousands) |
|-------------------------|------------------------------------------------------|
| 2017                    | \$ 4,356                                             |
| 2018                    | 3,917                                                |
| 2019                    | 3,347                                                |
| 2020                    | 2,056                                                |
| 2021                    | 503                                                  |
| Thereafter              | 229                                                  |
| Total                   | \$ 14,408                                            |

## NOTE 11. LONG-TERM DEBT

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

### Term Loan B and Revolving Credit Facility

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

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

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

| Date               | Principal<br>Paid      | Unamortized Discount |
|--------------------|------------------------|----------------------|
|                    | (Dollars in Thousands) |                      |
| December 30, 2016  | \$ 5,000               | \$ 12                |
| November 30, 2016  | 1,000                  | 3                    |
| September 30, 2016 | 1,500                  | 4                    |
| September 30, 2016 | 750                    | —                    |
| June 30, 2016      | 441                    | 1                    |
| June 30, 2016      | 750                    | —                    |
| March 31, 2016     | 750                    | —                    |
| March 17, 2016     | 809                    | 2                    |
| January 30, 2015   | 2,000                  | 15                   |

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

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

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

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

Debt issue costs associated with our Revolver are recorded as an asset in accordance with ASU 2015-15. These costs are being amortized to non-cash interest expense over the five year life of the Revolver using the effective interest

method based on an imputed interest rate of 4.58%. For each of the twelve months ended December 31, 2015 and 2016, we recorded amortization of deferred financing costs of approximately \$0.1 million each.

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

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

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

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

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

### *Summary of long-term debt obligations*

Long-term debt consisted of the following:

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

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

Outstanding borrowings of \$263.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%.

Outstanding borrowings of \$0.5 million under the Revolver, with interest payments due at LIBOR plus 3.00% or at prime rate plus 2.00%.

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

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

## Other Debt

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

## Maturities of Long-Term Debt

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

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

## NOTE 12. FAIR VALUE MEASUREMENTS AND DISCLOSURES

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

*Level 1 Inputs*—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

*Level 2 Inputs*—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and

*Level 3 Inputs*—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances (which might include the reporting entity's own data).

As of December 31, 2016, the carrying value of cash and cash equivalents, trade accounts receivables, accounts payable, accrued expenses and accrued interest approximates fair value due to the short-term nature of such instruments.

We have certain assets that are measured at fair value on a non-recurring basis that are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3 due to the subjective nature of the unobservable inputs used when estimating the fair value. During the fourth quarter of 2016, we estimated the fair value of broadcast licenses and mastheads using significant unobservable inputs (Level 3). We adjusted four of our broadcast market clusters and mastheads to their estimated fair value and recorded a combined impairment loss of \$7.0 million. See Note 2 – Impairment of Goodwill and Other Indefinite Lived Intangible Assets.

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

|                                                                                                     | December 31, 2016      |         |         |
|-----------------------------------------------------------------------------------------------------|------------------------|---------|---------|
|                                                                                                     | Fair Value Measurement |         |         |
|                                                                                                     | Category               |         |         |
| Total<br>Fair<br>Value<br>and<br>Carrying<br>Value on<br>Balance<br>Sheet<br>(Dollars in thousands) | Level<br>1             | Level 2 | Level 3 |
| Assets                                                                                              |                        |         |         |
| Estimated fair value of broadcast licenses                                                          | 388,517                |         | 123,109 |
| Estimated fair value of other indefinite-lived intangible assets                                    | 332                    |         | 332     |
| Liabilities:                                                                                        |                        |         |         |

|                                                                                                |         |   |         |    |
|------------------------------------------------------------------------------------------------|---------|---|---------|----|
| Estimated fair value of contingent earn-out consideration included in accrued expenses         | 66      | — | —       | 66 |
| Long-term debt and capital lease obligations less unamortized discount and debt issuance costs | 261,674 | — | 261,674 | —  |
| Fair value of interest rate swap                                                               | 514     | — | 514     | —  |

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

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

### NOTE 13. INCOME TAXES

We recognize deferred tax assets and liabilities for future tax consequences attributable to differences between our consolidated financial statement carrying amount of assets and liabilities and their respective tax bases. We measure these deferred tax assets and liabilities using enacted tax rates expected to apply in the years in which these temporary differences are expected to reverse. We recognize the effect on deferred tax assets and liabilities resulting from a change in tax rates in income in the period that includes the date of the change.

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

A summary of changes in the gross amount of unrecognized tax benefits is as follows:

|                                                              | December 31, 2016<br>(Dollars in thousands) |
|--------------------------------------------------------------|---------------------------------------------|
| Balance at January 1, 2016                                   | \$ 100                                      |
| Additions based on tax positions related to the current year | —                                           |
| Additions based on tax positions related to prior years      | —                                           |
| Reductions related to tax positions of prior years           | —                                           |
| Decrease due to statute expirations                          | (73 )                                       |
| Related interest and penalties, net of federal tax benefits  | (27 )                                       |
| Balance as of December 31, 2016                              | \$ —                                        |

The consolidated provision for income taxes is as follows:

|                            | December 31,<br>2014   | 2015    | 2016    |
|----------------------------|------------------------|---------|---------|
|                            | (Dollars in thousands) |         |         |
| Current:                   |                        |         |         |
| Federal                    | \$—                    | \$—     | \$—     |
| State                      | 269                    | 249     | 229     |
|                            | 269                    | 249     | 229     |
| Deferred:                  |                        |         |         |
| Federal                    | 3,932                  | 6,234   | 4,938   |
| State                      | 564                    | 212     | (595 )  |
|                            | 4,496                  | 6,446   | 4,343   |
| Provision for income taxes | \$4,765                | \$6,695 | \$4,572 |

Consolidated deferred tax assets and liabilities consist of the following:

|                                                                                                                 | December 31,           |             |
|-----------------------------------------------------------------------------------------------------------------|------------------------|-------------|
|                                                                                                                 | 2015                   | 2016        |
|                                                                                                                 | (Dollars in thousands) |             |
| Deferred tax assets:                                                                                            |                        |             |
| Financial statement accruals not currently deductible                                                           | \$9,699                | \$9,324     |
| Net operating loss, AMT credit and other carryforwards                                                          | 71,593                 | 71,215      |
| State taxes                                                                                                     | 114                    | 87          |
| Other                                                                                                           | 3,785                  | 3,394       |
| Total deferred tax assets                                                                                       | 85,191                 | 84,020      |
| Valuation allowance for deferred tax assets                                                                     | (2,771 )               | (4,487 )    |
| Net deferred tax assets                                                                                         | \$82,420               | \$79,533    |
| Deferred tax liabilities:                                                                                       |                        |             |
| Excess of net book value of property and equipment and software for financial reporting purposes over tax basis | \$2,826                | \$2,096     |
| Excess of net book value of intangible assets for financial reporting purposes over tax basis                   | 127,078                | 128,988     |
| Interest rate swap                                                                                              | (315 )                 | (193 )      |
| Unrecognized tax benefits                                                                                       | 100                    | —           |
| Other                                                                                                           | —                      | —           |
| Total deferred tax liabilities                                                                                  | 129,689                | 130,891     |
| Net deferred tax liabilities                                                                                    | \$(47,269 )            | \$(51,358 ) |

The following table reconciles the above net deferred tax liabilities to the financial statements:

|                                                 | December 31,           |             |
|-------------------------------------------------|------------------------|-------------|
|                                                 | 2015                   | 2016        |
|                                                 | (Dollars in thousands) |             |
| Deferred income tax asset per balance sheet     | \$9,813                | \$9,411     |
| Deferred income tax liability per balance sheet | (57,082 )              | (60,769 )   |
|                                                 | \$(47,269 )            | \$(51,358 ) |

A reconciliation of the statutory federal income tax rate to the provision for income tax is as follows:

|                                            | Year Ended December<br>31, |         |         |
|--------------------------------------------|----------------------------|---------|---------|
|                                            | 2014                       | 2015    | 2016    |
|                                            | (Dollars in thousands)     |         |         |
| Statutory federal income tax rate (at 35%) | \$3,584                    | \$6,246 | \$4,706 |
| Effect of state taxes, net of federal      | 292                        | 458     | (486 )  |
| Permanent items                            | 613                        | 445     | 266     |
| State rate change                          | 166                        | 23      | (1,664) |
| Valuation allowance                        | 84                         | (181 )  | 1,763   |
| Other, net                                 | 26                         | (296 )  | (13 )   |
| Provision for income taxes                 | \$4,765                    | \$6,695 | \$4,572 |

At December 31, 2016, we had net operating loss carryforwards for federal income tax purposes of approximately \$150.7 million that expire in 2020 through 2034 and for state income tax purposes of approximately \$1,021.2 million that expire in years 2017 through 2036. For financial reporting purposes at December 31, 2016 we had a valuation allowance of \$4.5 million, net of federal benefit, to offset \$4.2 million of the deferred tax assets related to the state net operating loss carryforwards and \$0.3 million associated with asset impairments. Our evaluation was performed for tax years that remain subject to examination by major tax jurisdictions, which range from 2012 through 2015.

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

#### **NOTE 14. COMMITMENTS AND CONTINGENCIES**

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

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

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

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

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

Salem leases various land, offices, studios and other equipment under operating leases that generally expire over the next ten to twenty-five years. The majority of these leases are subject to escalation clauses and may be renewed for successive periods ranging from one to five years on terms similar to current agreements and except for specified increases in lease payments. Rental expense included in operating expense under all lease agreements was \$19.8 million, \$19.1 million and \$17.9 million in 2016, 2015 and 2014, respectively.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016, are as follows:

|            | Related<br>Parties    | Other     | Total     |
|------------|-----------------------|-----------|-----------|
|            | (Dollars in thousand) |           |           |
| 2017       | \$ 1,560              | \$ 11,698 | \$ 13,258 |
| 2018       | 852                   | 11,282    | 12,134    |
| 2019       | 592                   | 10,601    | 11,193    |
| 2020       | 606                   | 10,033    | 10,639    |
| 2021       | 591                   | 8,533     | 9,124     |
| Thereafter | 5,712                 | 32,109    | 37,821    |
|            | \$ 9,913              | \$ 84,256 | \$ 94,169 |

#### NOTE 15. STOCK INCENTIVE PLAN

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

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

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

We recognize non-cash stock-based compensation expense based on the estimated fair value of awards in accordance with FASB ASC Topic 718 “*Compensation—Stock Compensation*.” Stock-based compensation expense fluctuates over time as a result of the vesting periods for outstanding awards and the number of awards that actually vest.

The following table reflects the components of stock-based compensation expense recognized in the Consolidated Statements of Operations for the years ended December 31, 2014, 2015 and 2016:

|                                                                             | Year Ended December 31, |        |        |
|-----------------------------------------------------------------------------|-------------------------|--------|--------|
|                                                                             | 2014                    | 2015   | 2016   |
|                                                                             | (Dollars in thousands)  |        |        |
| Stock option compensation expense included in corporate expenses            | \$1,025                 | \$474  | \$378  |
| Restricted stock shares compensation expense included in corporate expenses | —                       | 34     | 24     |
| Stock option compensation expense included in broadcast operating expenses  | 325                     | 130    | 85     |
| Stock option compensation expense included in Internet operating expenses   | 165                     | 92     | 60     |
| Stock option compensation expense included in publishing operating expenses | 61                      | 41     | 35     |
| Total stock-based compensation expense, pre-tax                             | \$1,576                 | \$771  | \$582  |
| Tax benefit (expense) from stock-based compensation expense                 | (630 )                  | (308 ) | (233 ) |
| Total stock-based compensation expense, net of tax                          | \$946                   | \$463  | \$349  |

### *Stock option and restricted stock grants*

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

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

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

The weighted-average assumptions used to estimate the fair value of the stock options and restricted stock awards using the Black-Scholes valuation model were as follows for the years ended December 31, 2014, 2015 and 2016:

|                          | Year Ended December 31, |         |         |
|--------------------------|-------------------------|---------|---------|
|                          | 2014                    | 2015    | 2016    |
| Expected volatility      | 74.98 %                 | 52.37 % | 47.03 % |
| Expected dividends       | 2.70 %                  | 4.28 %  | 5.36 %  |
| Expected term (in years) | 7.8                     | 3.0     | 7.4     |
| Risk-free interest rate  | 2.27 %                  | 0.85 %  | 1.64 %  |

Activity with respect to the company's option awards during the three years ended December 31, 2015 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

| Options                          | Shares     | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|------------|---------------------------------|----------------------------------------|---------------------------------------------|---------------------------|
| Outstanding at January 1, 2014   | 2,162,067  | \$ 5.09                         | \$ 3.57                                | 5.5 years                                   | \$ 8,491                  |
| Granted                          | 25,000     | 8.40                            | 4.73                                   |                                             | —                         |
| Exercised                        | (278,837 ) | 4.38                            | 3.43                                   |                                             | 1,260                     |
| Forfeited or expired             | (92,026 )  | 12.25                           | 7.89                                   |                                             | 43                        |
| Outstanding at December 31, 2014 | 1,816,204  | \$ 4.88                         | \$ 3.39                                | 4.8 years                                   | \$ 5,718                  |
| Exercisable at December 31, 2014 | 663,417    | 5.32                            | 3.90                                   | 3.0 years                                   | 2,015                     |
| Expected to Vest                 | 1,094,574  | \$ 4.62                         | \$ 3.10                                | 5.9 years                                   | \$ 3,515                  |
| Outstanding at January 1, 2015   | 1,816,204  | \$ 4.88                         | \$ 3.39                                | 5.5 years                                   | \$ 5,718                  |

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|                                  |            |         |         |           |          |
|----------------------------------|------------|---------|---------|-----------|----------|
| Granted                          | 10,000     | 6.08    | 1.98    |           | —        |
| Exercised                        | (163,994 ) | 2.35    | 1.53    |           | 589      |
| Forfeited or expired             | (81,087 )  | 10.32   | 6.93    |           | 12       |
| Outstanding at December 31, 2015 | 1,581,123  | \$ 4.87 | \$ 3.39 | 4.3 years | \$ 1,738 |
| Exercisable at December 31, 2015 | 947,573    | 4.92    | 3.54    | 3.3 years | 1,001    |
| Expected to Vest                 | 601,557    | \$ 4.80 | \$ 3.15 | 5.6 years | \$ 700   |
| Outstanding at January 1, 2016   | 1,581,123  | \$ 4.87 | \$ 3.39 | 4.3years  | \$ 1,738 |
| Granted                          | 549,500    | 4.85    | 1.33    |           | —        |
| Exercised                        | (336,996 ) | 2.95    | 2.02    |           | 1,418    |
| Forfeited or expired             | (73,627 )  | 8.06    | 3.07    |           | 3        |
| Outstanding at December 31, 2016 | 1,720,000  | \$ 5.12 | \$ 2.89 | 4.5 years | \$ 2,428 |
| Exercisable at December 31, 2016 | 841,625    | 5.56    | 3.94    | 2.9 years | 948      |
| Expected to Vest                 | 834,017    | \$ 5.11 | \$ 2.91 | 4.5 years | \$ 1,442 |

The aggregate intrinsic value represents the difference between the company's closing stock price on December 31, 2016 of \$6.25 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the years ended December 31, 2016, 2015 and 2014 was \$1.1 million, \$1.5 million and \$1.9 million, respectively.

Non-employee directors of the company have been awarded restricted stock grants that vest one year from the date of issuance. During the twelve months ended December 31, 2015, the company granted restricted stock awards to non-employee directors that vest one year from the date of issuance. These restricted stock awards contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until the sooner of the fifth anniversary from the grant date or the day after the non-employee director is no longer a member of the company's board. The restricted stock awards were independent of option grants and were granted at no cost to the recipient other than applicable taxes owed by the recipient. The awards were considered issued and outstanding from the date of grant.

The fair values of shares of restricted stock awards are determined based on the closing price of the company's common stock on the grant dates. Activity with respect to the company's restricted stock awards during the year ended December 31, 2016 is as follows:

| Restricted Stock Awards          | Shares   | Weighted Average Grant<br>Date<br>Fair Value | Weighted Average<br>Remaining<br>Contractual Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|----------|----------------------------------------------|---------------------------------------------------|---------------------------------|
| Non-Vested at January 1, 2016    | 10,000   | \$ 5.83                                      | <b>0.2 years</b>                                  | \$ 40                           |
| Granted                          | —        | —                                            | —                                                 | —                               |
| Lapsed                           | (10,000) | (5.83                                        | ) —                                               | 52                              |
| Forfeited or expired             | —        | —                                            | —                                                 | —                               |
| Outstanding at December 31, 2016 | —        | \$ —                                         | —                                                 | \$ —                            |

As of December 31, 2016, there was \$0.4 million of total unrecognized compensation cost related to non-vested awards of stock options. This cost is expected to be recognized over a weighted-average period of 2.0 years.

Additional information regarding options outstanding as of December 31, 2016, is as follows:

| Range of<br>Exercise Prices | Options   | Weighted Average<br>Contractual Life<br>Remaining<br>(Years) | Weighted<br>Average<br>Exercise Price | Exercisable<br>Options | Weighted Average<br>Grant Date<br>Fair Value |
|-----------------------------|-----------|--------------------------------------------------------------|---------------------------------------|------------------------|----------------------------------------------|
| \$2.38 - \$2.56             | 147,375   | 2.4                                                          | \$ 2.38                               | 147,375                | \$ 2.38                                      |
| \$2.57 - \$4.42             | 290,500   | 4.6                                                          | 2.76                                  | 86,500                 | 2.80                                         |
| \$4.43 - \$4.85             | 541,000   | 6.7                                                          | 4.85                                  | —                      | —                                            |
| \$4.86 - \$6.65             | 91,250    | 1.7                                                          | 5.30                                  | 86,250                 | 5.33                                         |
| \$6.66 - \$7.54             | 619,875   | 3.6                                                          | 6.92                                  | 506,750                | 6.92                                         |
| \$7.55 - \$8.76             | 30,000    | 4.8                                                          | 8.37                                  | 14,750                 | 8.37                                         |
|                             | 1,720,000 | 4.5                                                          | \$ 5.12                               | 841,625                | \$ 5.56                                      |

#### NOTE 16. RELATED PARTY TRANSACTIONS

Our board of directors has adopted a written policy for review, approval and monitoring of transactions between the company and its related parties. Related parties include our directors, executive officers, nominees to become a director, any person beneficially owning more than 5% of any class of our stock, immediate family members of any of the foregoing, and any entity in which any of the foregoing persons is employed or is a general partner or principal or in which the person has a 10% or greater beneficial ownership interest. The policy covers material transactions in which a related party had, has or will have a direct or indirect interest.

On December 15, 2016, we entered into a related party LMA with East Bay Broadcasting, LLC, a company owned by Edward G. Atsinger III, Chief Executive Officer and Stuart W. Epperson, Chairman of the Board, to operate radio station KTRB-AM in San Francisco, California. We had been operating the station under an LMA agreement with an unrelated third party as of June 24, 2016. Our Nominating and Corporate Governance Committee reviewed the related party LMA and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

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

On October 12, 2016, we acquired an FM translator in Lake City, Florida for \$65,000 in cash from Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson, the wife of the Chairman of the Board, and Stuart W. Epperson Jr., the son of the Chairman of the Board, serve as directors. The FM translator will be used by our WBZW-AM radio station in Orlando, Florida.

### **Leases with Principal Stockholders**

A trust controlled by the Chief Executive Officer of the company, Edward G. Atsinger III, owns real estate on which assets of one radio station are located. Salem has entered into a lease agreement with this trust. Rental expense related to this lease included in operating expense for 2016, 2015 and 2014 amounted to \$185,000, \$180,000 and \$175,000, respectively.

Land and buildings occupied by various Salem radio stations are leased from entities owned by the company's CEO and its Chairman of the Board. Rental expense under these leases included in operating expense for 2016, 2015 and 2014 amounted to \$1.5 million, \$1.3 million and \$1.3 million, respectively.

On September 2, 2016, we entered into a related party lease with trusts created for the benefit of Edward G. Atsinger III, Chief Executive Officer, and Stuart W. Epperson, Chairman of the Board. The lease is for real property located in East Carondelet, Illinois that is used as the night site location for KXFN-AM in our St. Louis, Missouri market. Our Nominating and Corporate Governance Committee reviewed the lease and lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

On March 2, 2016, we entered into a related party lease with trusts created for the benefit of Edward G. Atsinger III, Chief Executive Officer, and Stuart W. Epperson, Chairman of the Board. The lease is for real property located in

Brighton, Colorado that is used to operate radio station KNUS-AM in our Denver, Colorado market. Our Nominating and Corporate Governance Committee reviewed the lease and lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party.

### **Radio Stations Owned by the Epperson's**

Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, currently serves as an officer, director and stockholder of six radio stations in Virginia, five radio stations in North Carolina, and five radio stations in Florida. Chesapeake-Portsmouth Broadcasting Corporation ("Chesapeake-Portsmouth") is a company controlled by Nancy Epperson, wife of Salem's Chairman of the Board Stuart W. Epperson and sister of CEO Edward G. Atsinger III. Chesapeake-Portsmouth owns and operates radio stations WJGR-AM, Jacksonville, Florida, WZNZ-AM, Jacksonville, Florida and WZAZ-AM, Jacksonville, Florida.

The markets where these radio stations are located are not currently served by stations owned and operated by the company. Under his employment agreement, Mr. Epperson is required to offer the company a right of first refusal of opportunities related to the company's business.

### **Radio Stations Owned by Mr. Hinz**

Mr. Hinz, a director of the company, through companies or entities controlled by him, operates three radio stations in Southern California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language.

### **Truth For Life—Mr. Riddle**

Truth For Life is a non-profit organization that is a customer of Salem Media Group, Inc. During 2016, 2015 and 2014, the company billed Truth For Life approximately \$2.2 million, respectively, for airtime on its stations. Mr. Riddle, a director of the company, joined the Truth for Life board in October 2010 and remains a member of this board.

### **Know the Truth - Mr. Riddle**

Know the Truth is a non-profit organization that is a customer of Salem Media Group, Inc. During 2016, 2015 and 2014, the company billed Know the Truth approximately \$0.4 million, \$0.4 million and \$0.5 million, respectively, for airtime on its stations. Mr. Riddle, a director of the company, joined the Know the Truth board in 2010 and remains a

member of this board.

### **The Truth Network – Stuart W. Epperson Jr.**

The Truth Network provides original and broadcast Christian radio that is a customer of Salem Media Group, Inc. During 2016, the company billed The Truth Network approximately \$11,000 for airtime on its stations. Mr. Epperson Jr., is the CEO and President of the company.

### **Split-Dollar Life Insurance**

Salem has maintained split-dollar life insurance policies for its Chairman and Chief Executive Officer since 1997. Since 2003, the company has been the owner of the split-dollar life insurance policies and is entitled to recover all of the premiums paid on these policies. The company records an asset based on the lower of the aggregate premiums paid or the insurance cash surrender value. The premiums were \$386,000 for each of the years ended December 31, 2016, 2015 and 2014. As of December 31, 2016, 2015, and 2014, the company recorded the net cash surrender value of these policies as assets of \$1.0 million, \$0.6 million and \$0.2 million, respectively. The cumulative premiums paid on these policies were \$2.6 million, \$2.5 million and \$1.9 million, respectively. Benefits above and beyond the cumulative premiums paid will go to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

### **Transportation Services Supplied by Atsinger Aviation**

From time to time, the company rents aircraft from a company owned by Edward G. Atsinger III, Chief Executive Officer and director of Salem. As approved by the independent members of the company's board of directors, the company rents these aircraft on an hourly basis at what the company believes are market rates and uses them for general corporate needs. Total rental expense for these aircraft for 2016, 2015 and 2014 amounted to approximately \$301,000, \$133,000 and \$274,000, respectively.

### **NOTE 17. DEFINED CONTRIBUTION PLAN**

We maintain a 401(k) defined contribution plan (the "401(k) Plan"), which covers all eligible employees (as defined in the 401(k) Plan). Participants are allowed to make non-forfeitable contributions up to 60% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The company match is currently 50% on the first 5% of the amounts contributed by each participant. During the years ending December 31, 2016, 2015 and 2014, the company contributed and expensed \$1.9 million, \$1.9 million and

\$1.7 million, respectively, into the 401(k) Plan.

**NOTE 18. EQUITY TRANSACTIONS**

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, “*Compensation-Stock Compensation*.” As a result, \$0.6 million, \$0.8 million and \$1.6 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the years ended December 31, 2016, 2015, and 2014, respectively.

While we intend to pay regular quarterly distributions, the actual declaration of such future distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. Adjusted EBITDA is a non-GAAP financial measure defined in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations included with this annual report on Form 10-K.

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

| Announcement Date | Payment Date       | Amount Per Share | Cash Distributed<br>(in thousands) |
|-------------------|--------------------|------------------|------------------------------------|
| December 7, 2016  | December 31, 2016  | \$ 0.0650        | \$ 1,678                           |
| September 9, 2016 | September 30, 2016 | \$ 0.0650        | \$ 1,679                           |
| June 2, 2016      | June 30, 2016      | \$ 0.0650        | \$ 1,664                           |
| March 10, 2016    | April 5, 2016      | \$ 0.0650        | \$ 1,657                           |
| December 1, 2015  | December 29, 2015  | \$ 0.0650        | \$ 1,656                           |
| September 1, 2015 | September 30, 2015 | \$ 0.0650        | \$ 1,655                           |
| June 2, 2015      | June 30, 2015      | \$ 0.0650        | \$ 1,654                           |
| March 5, 2015     | March 31, 2015     | \$ 0.0650        | \$ 1,647                           |

Based on the number of shares of Class A and Class B currently outstanding, we expect to pay total annual distributions of approximately \$6.8 million for the year ended December 31, 2017.

**NOTE 19. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):**

The following table sets forth selected financial results of the company on a quarterly basis.

|                                                                   | March 31                                      |            | June 30    |            | September 30 |            | December 31 |            |
|-------------------------------------------------------------------|-----------------------------------------------|------------|------------|------------|--------------|------------|-------------|------------|
|                                                                   | 2015                                          | 2016       | 2015       | 2016       | 2015         | 2016       | 2015        | 2016       |
|                                                                   | (Dollars in thousands, except per share data) |            |            |            |              |            |             |            |
| Total revenue                                                     | \$61,856                                      | \$64,575   | \$67,293   | \$67,779   | \$67,491     | \$71,272   | \$69,147    | \$70,695   |
| Operating income                                                  | 5,703                                         | 6,083      | 9,254      | 9,702      | 8,800        | 8,835      | 9,265       | 3,458      |
| Net income                                                        | \$295                                         | \$353      | \$3,523    | \$3,356    | \$2,077      | \$2,192    | \$5,255     | \$2,972    |
| Basic earnings per share Class A and Class B common stock         | \$0.01                                        | \$0.01     | \$0.14     | \$0.13     | \$0.08       | \$0.08     | \$0.20      | \$0.11     |
| Diluted earnings per share Class A and B Class common stock       | \$0.01                                        | \$0.01     | \$0.14     | \$0.13     | \$0.08       | \$0.08     | \$0.20      | \$0.11     |
| Weighted average Class A and Class B shares outstanding – basic   | 25,346,499                                    | 25,485,234 | 25,429,127 | 25,551,445 | 25,459,962   | 25,815,242 | 25,471,342  | 25,826,234 |
| Weighted average Class A and Class B shares outstanding – diluted | 25,921,118                                    | 25,802,958 | 25,829,493 | 26,052,649 | 25,907,651   | 26,183,182 | 25,893,015  | 26,101,174 |

## NOTE 20. SEGMENT DATA

FASB ASC Topic 280, “*Segment Reporting*,” requires companies to provide certain information about their operating segments. We have three operating segments: (1) Broadcast, (2) Digital Media and (3) Publishing.

During the third quarter of 2016, we reclassified Salem Consumer Products, our e-commerce business that sells books, DVD’s and editorial content developed by our on-air personalities, from our Digital Media segment to our Broadcast segment. With this reclassification, all revenue and expenses generated by on-air hosts, including broadcast programs and e-commerce product sales are consolidated to assess the financial performance of each network program.

Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assess the performance of each operating segment and determine the appropriate allocations of resources to each segment. We continue to review our operating segment classifications to align with operational changes in our business and may make future changes as necessary.

We measure and evaluate our operating segments based on operating income and operating expenses that do not include allocations of costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury; nor do they include costs such as amortization, depreciation, taxes or interest expense. Changes to our operating segments did not impact the reporting units used to test non-amortizable assets for impairment. All prior periods presented are updated to reflect the new composition of our operating segments. Segment performance, as defined by Salem, is not necessarily comparable to other similarly titled captions of other companies.

The table below presents financial information for each operating segment as of December 31, 2016, 2015 and 2014 based on the new composition of our operating segments:

|                                                                                                                                                                                                        | Broadcast              | Digital<br>Media | Publishing  | Unallocated<br>Corporate | Consolidated |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------|-------------|--------------------------|--------------|
|                                                                                                                                                                                                        | (Dollars in thousands) |                  |             |                          |              |
| Year Ended December 31, 2016                                                                                                                                                                           |                        |                  |             |                          |              |
| Net revenue                                                                                                                                                                                            | \$202,016              | \$46,777         | \$ 25,528   | \$ —                     | \$ 274,321   |
| Operating expenses                                                                                                                                                                                     | 146,283                | 36,290           | 26,209      | 14,994                   | 223,776      |
| Net operating income (loss) before depreciation,<br>amortization, impairments, change in estimated fair<br>value of contingent earn-out consideration (gain) loss<br>on the sale or disposal of assets | \$55,733               | \$10,487         | \$ (681 )   | \$ (14,994 )             | \$ 50,545    |
| Depreciation                                                                                                                                                                                           | 7,592                  | 3,092            | 675         | 846                      | 12,205       |
| Amortization                                                                                                                                                                                           | 86                     | 4,304            | 680         | 1                        | 5,071        |
| Impairment of long-lived assets                                                                                                                                                                        | 700                    | —                | —           | —                        | 700          |
| Impairment of indefinite-lived long-term assets other<br>than goodwill                                                                                                                                 | 6,540                  | —                | 501         | —                        | 7,041        |
| Impairment of goodwill                                                                                                                                                                                 | —                      | 32               | —           | —                        | 32           |
| Impairment of amortizable intangible assets                                                                                                                                                            | —                      | 8                | —           | —                        | 8            |
| Change in estimated fair value of contingent earn-out<br>consideration                                                                                                                                 | —                      | (146 )           | (543 )      | —                        | (689 )       |
| (Gain) loss on the sale or disposal of assets                                                                                                                                                          | (2,122 )               | 236              | (21 )       | 6                        | (1,901 )     |
| Operating income (loss)                                                                                                                                                                                | \$42,937               | \$2,961          | \$ (1,973 ) | \$ (15,847 )             | \$ 28,078    |
| Year Ended December 31, 2015                                                                                                                                                                           |                        |                  |             |                          |              |
| Net revenue                                                                                                                                                                                            | \$197,184              | \$44,761         | \$ 23,842   | \$ —                     | \$ 265,787   |
| Operating expenses                                                                                                                                                                                     | 140,819                | 35,380           | 24,774      | 15,146                   | 216,119      |
| Net operating income (loss) before depreciation,<br>amortization, impairments, change in estimated fair<br>value of contingent earn-out consideration (gain) loss<br>on the sale or disposal of assets | \$56,365               | \$9,381          | \$ (932 )   | \$ (15,146 )             | \$ 49,668    |
| Depreciation                                                                                                                                                                                           | 7,726                  | 3,091            | 637         | 963                      | 12,417       |
| Amortization                                                                                                                                                                                           | 96                     | 4,685            | 542         | 1                        | 5,324        |
| Impairment of goodwill                                                                                                                                                                                 | 439                    | —                | —           | —                        | 439          |
| Change in estimated fair value of contingent earn-out<br>consideration                                                                                                                                 | —                      | (478 )           | (1,237 )    | —                        | (1,715 )     |
| (Gain) loss on the sale or disposal of assets                                                                                                                                                          | 219                    | 11               | (58 )       | 9                        | 181          |
| Operating income (loss)                                                                                                                                                                                | \$47,885               | \$2,072          | \$ (816 )   | \$ (16,119 )             | \$ 33,022    |
| Year Ended December 31, 2014                                                                                                                                                                           |                        |                  |             |                          |              |
| Net revenue                                                                                                                                                                                            | \$194,094              | \$45,691         | \$ 26,751   | \$ —                     | \$ 266,536   |
| Operating expenses                                                                                                                                                                                     | 139,206                | 35,590           | 26,143      | 17,092                   | 218,031      |
|                                                                                                                                                                                                        | \$54,888               | \$10,101         | \$ 608      | \$ (17,092 )             | \$ 48,505    |

Net operating income (loss) before depreciation,  
amortization, impairments, change in estimated fair  
value of contingent earn-out consideration (gain) loss  
on the sale or disposal of assets

|                                                                     |          |         |             |              |           |
|---------------------------------------------------------------------|----------|---------|-------------|--------------|-----------|
| Depreciation                                                        | 7,988    | 2,987   | 529         | 1,125        | 12,629    |
| Amortization                                                        | 109      | 4,874   | 1,212       | 1            | 6,196     |
| Impairment of indefinite-lived long-term assets other than goodwill | —        | —       | 34          | —            | 34        |
| Impairment of goodwill                                              | —        | —       | 45          | —            | 45        |
| Change in estimated fair value of contingent earn-out consideration | —        | 325     | 409         | —            | 734       |
| (Gain) loss on the sale or disposal of assets                       | 231      | 25      | (5 )        | —            | 251       |
| Operating income (loss)                                             | \$46,560 | \$1,890 | \$ (1,616 ) | \$ (18,218 ) | \$ 28,616 |

|                                          | Broadcast              | Digital Media | Publishing | Unallocated Corporate | Consolidated |
|------------------------------------------|------------------------|---------------|------------|-----------------------|--------------|
|                                          | (Dollars in thousands) |               |            |                       |              |
| As of December 31, 2016                  |                        |               |            |                       |              |
| Inventories, net                         | \$—                    | \$300         | \$ 370     | \$ —                  | \$ 670       |
| Property and equipment, net              | 86,976                 | 6,634         | 1,779      | 7,401                 | 102,790      |
| Broadcast licenses                       | 388,517                | —             | —          | —                     | 388,517      |
| Goodwill                                 | 3,581                  | 20,136        | 1,888      | 8                     | 25,613       |
| Other indefinite-lived intangible assets | —                      | —             | 332        | —                     | 332          |
| Amortizable intangible assets, net       | 407                    | 9,927         | 4,069      | 5                     | 14,408       |
| As of December 31, 2015                  |                        |               |            |                       |              |
| Inventories, net                         | \$—                    | \$505         | \$ 388     | \$ —                  | \$ 893       |
| Property and equipment, net              | 88,894                 | 6,927         | 1,742      | 7,920                 | 105,483      |
| Broadcast licenses                       | 393,031                | —             | —          | —                     | 393,031      |
| Goodwill                                 | 3,581                  | 19,930        | 1,044      | 8                     | 24,563       |
| Other indefinite-lived intangible assets | —                      | —             | 833        | —                     | 833          |
| Amortizable intangible assets, net       | 492                    | 9,599         | 1,385      | 5                     | 11,481       |

The table below presents financial information for each operating segment as of December 31, 2015 and 2014 with a comparison of the results under the prior composition of our operating segments as compared to the new composition:

|                                                                                                                              | Year ended December 31, |           |           |           |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------|-----------|-----------|
|                                                                                                                              | 2014                    |           | 2015      |           |
|                                                                                                                              | Original                | Updated   | Original  | Updated   |
| (Dollars in thousands)                                                                                                       |                         |           |           |           |
| Revenues by Segment:                                                                                                         |                         |           |           |           |
| Net Broadcast Revenue                                                                                                        | \$192,923               | \$194,094 | \$196,090 | \$197,184 |
| Net Digital Media Revenue                                                                                                    | 46,862                  | 45,691    | 45,855    | 44,761    |
| Net Publishing Revenue                                                                                                       | 26,751                  | 26,751    | 23,842    | 23,842    |
| Total Net Revenue                                                                                                            | \$266,536               | \$266,536 | \$265,787 | \$265,787 |
| Operating expenses by segment:                                                                                               |                         |           |           |           |
| Broadcast Operating Expenses                                                                                                 | \$138,564               | \$139,206 | \$140,230 | \$140,819 |
| Digital Media Operating Expenses                                                                                             | 36,232                  | 35,590    | 35,969    | 35,380    |
| Publishing Operating Expenses                                                                                                | 26,143                  | 26,143    | 24,774    | 24,774    |
| Unallocated Corporate Expenses                                                                                               | 17,092                  | 17,092    | 15,146    | 15,146    |
|                                                                                                                              | \$218,031               | \$218,031 | \$216,119 | \$216,119 |
| Net operating income (loss) before depreciation, amortization, impairments and (gain) loss on the sale or disposal of assets | \$48,505                | \$48,505  | \$49,668  | \$49,668  |

## NOTE 21. SUBSEQUENT EVENTS

On March 8, 2017, we announced a quarterly equity distribution in the amount of \$0.0650 per share on Class A and Class B common stock. The equity distribution will be paid on March 31, 2017, to all Class A and Class B common stockholders of record as of March 20, 2017.

On March 1, 2017, we closed on the acquisition of an FM translator in Roseburg, Oregon for \$45,000 in cash. The FM translator will be used in our Portland, Oregon market.

On February 28, 2017, we repaid \$3.0 million in principal on our Term Loan B and paid interest due through that date. We recorded a \$6,300 pre-tax loss on the early retirement of long-term debt related to the unamortized discount and \$17,000 in bank loan fees associated with the principal repayment.

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

\$12,270 in bank loan fees associated with the principal repayment.

On January 16, 2017, we closed on the acquisition of an FM translator in Astoria, Florida for \$33,000 in cash. The FM translator will be relocated to the Seattle, Washington market for use by our KGNW-AM radio station.

On January 6, 2017, we closed on the acquisition of an FM translator construction permit in Mohave Valley, Arizona for \$20,000 in cash. The FM translator will be relocated to the San Diego, California market for use by our KCBQ-AM radio.

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

**3. Exhibits.****EXHIBIT LIST**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                    | <b>Form</b> | <b>File No.</b> | <b>Date of First Filing</b> | <b>Exhibit Number</b> | <b>Filed Herewith</b> |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|-----------------------------|-----------------------|-----------------------|
| 3.01                  | Amended and Restated Certificate of Incorporation of the Company.                                                                                             | 8-K         | 333-41733-29    | 04/14/99                    | 3.1                   |                       |
| 3.02                  | Certificate of Amendment of Certificate of Incorporation of the Company.                                                                                      | 8-K         | 000-26497       | 02/23/15                    | 3.1                   |                       |
| 3.03                  | Second Amended and Restated Bylaws of the Company.                                                                                                            | 8-K         | 000-26497       | 02/23/15                    | 3.2                   |                       |
| 4.01                  | Specimen of Class A common stock certificate.                                                                                                                 | S-1/A       | 333-76649       | Declared Effective 06/30/99 | 4.09                  |                       |
| 10.01                 | Employment Agreement, dated July 1, 2016 between Salem Communications Holding Corporation and Edward G. Atsinger III.                                         | 8-K         | 000-26497       | 06/13/16                    | 99.1                  |                       |
| 10.02                 | Employment Agreement, dated July 1, 2016 between Salem Communications Holding Corporation and Stuart W. Epperson.                                             | 10-Q        | 000-26497       | 08/05/16                    | 10.1                  |                       |
| 10.03                 | Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and Evan D. Masyr.                                                | 8-K         | 000-26497       | 01/04/17                    | 99.1                  |                       |
| 10.04                 | Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and David Santrella.                                              | 8-K         | 000-26497       | 01/04/17                    | 99.2                  |                       |
| 10.05                 | Employment Agreement, effective as of September 15, 2014, between Salem Communications Holding Corporation and David A.R. Evans.                              | 8-K         | 000-26497       | 09/19/14                    | 99.1                  |                       |
| 10.06.01              | Antenna/tower lease between Caron Broadcasting, Inc. (KFXN-AM) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust, expiring in 2036. | 8-K         | 000-26497       | 09/08/16                    | 10.3                  |                       |

|             |                                                                                                                                                                                 |      |              |          |             |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------|----------|-------------|
| 10.06.02    | Antenna/tower/studio lease between Common Ground Broadcasting, Inc. (KKMS-AM/Eagan, Minnesota) and Messrs. Atsinger and Epperson expiring in 2036.                              | 8-K  | 000-26497    | 09/08/16 | 10.2        |
| 10.06.03    | Antenna/tower lease (KFAX-FM/Hayward, California) and Salem Broadcasting Company, a partnership consisting of Messrs. Atsinger and Epperson, expiring in 2023.                  | 8-K  | 000-26497    | 04/14/08 | 10.06.21    |
| 10.06.04    | Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.                                      | S-4  | 333-41733-29 | 01/29/98 | 10.05.19    |
| 10.06.04.01 | Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.                   | 10-K | 000-26497    | 03/17/08 | 10.06.13.01 |
| 10.06.04.02 | Second Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.            | 10-K | 000-26497    | 03/17/08 | 10.06.13.02 |
| 10.06.05    | Antenna/tower lease between Inspiration Media, Inc. (KLFE-AM/Seattle, Washington) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring in 2023. | 8-K  | 000-26497    | 04/14/08 | 10.06.22    |

|          |                                                                                                                                                                                                                |                  |          |          |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|----------|
| 10.06.06 | Antenna/tower/studio lease between Pennsylvania Media Associates, Inc. (WNTP-AM/WFIL-AM/Philadelphia, Pennsylvania) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023. | 8-K 000-26497    | 04/14/08 | 10.06.27 |
| 10.06.07 | Antenna/tower lease between New Inspiration Broadcasting Co., Inc.: as successor in interest to Radio 1210, Inc. (KPRZ-AM/San Marcos, California) and The Atsinger Family Trust expiring in 2028.              | S-4 333-41733-29 | 01/29/98 | 10.05.12 |
| 10.06.08 | Lease Agreement between Salem Media of Colorado, Inc. (KNUS-AM/Denver-Boulder, Colorado) and Messrs. Atsinger and Epperson expiring 2036.                                                                      | 8-K 000-26497    | 03/03/16 | 10.1     |
| 10.06.09 | Antenna/tower lease between Salem Media of Oregon, Inc. (KPDQ-AM/FM/Portland, Oregon), and Messrs. Atsinger and Epperson expiring 2023.                                                                        | 8-K 000-26497    | 04/14/08 | 10.06.24 |
| 10.06.10 | Antenna/tower lease between South Texas Broadcasting, Inc. (KNTH-AM/Houston-Galveston, Texas) and Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023.                           | 8-K 000-36497    | 04/14/08 | 10.06.23 |
| 10.06.11 | Antenna/tower lease between New Inspiration Broadcasting Company, Inc. (KFIA-AM/Sacramento, California) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2036.             | 8-K 000-26497    | 09/08/16 | 10.1     |

|          |                                                                                                                                                                                    |      |           |          |          |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|----------|----------|
| 10.06.12 | Antenna/tower lease between Inspiration Media of Texas, Inc. (KTEK-AM/Alvin, Texas) and the Atsinger Family Trust and The Stuart W. Epperson Revocable Living Trust expiring 2018. | 10-K | 000-26497 | 03/31/99 | 10.05.23 |
| 10.06.13 | Antenna/tower lease between Pennsylvania Media Associates Inc. (WTLN-AM/ Orlando, Florida) and Atsinger Family Trust and Stuart W. Epperson, revocable living trust expiring 2045. | 10-K | 000-26497 | 03/16/07 | 10.05.25 |
| 10.06.14 | Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KDOW-AM/Palo Alto, CA) and Principal Shareholders expiring 2023.                                            | 8-K  | 000-26497 | 04/14/08 | 10.06.20 |
| 10.06.15 | Lease Agreement, dated April 8, 2008, between New Inspiration Broadcasting Company, Inc. (KFAX-AM/San Francisco, CA) and Principal Shareholders expiring 2023.                     | 8-K  | 000-26497 | 04/14/08 | 10.06.21 |
| 10.06.16 | Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KLFE-AM/Seattle, WA) and Principal Shareholders expiring 2023.                                              | 8-K  | 000-26497 | 04/14/08 | 10.06.22 |
| 10.06.17 | Lease Agreement, dated April 8, 2008, between South Texas Broadcasting, Inc. (KNTH-AM/Houston, TX) and Principal Shareholders expiring 2023.                                       | 8-K  | 000-26497 | 04/14/08 | 10.06.23 |

|             |                                                                                                                                                                                                           |      |           |          |             |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|----------|-------------|
| 10.06.18    | Lease Agreement, dated April 8, 2008, between Salem Media of Oregon, Inc. (KPDQ-AM/Portland, OR) and Principal Shareholders expiring 2023.                                                                | 8-K  | 000-26497 | 04/14/08 | 10.06.24    |
| 10.06.19    | Lease Agreement, dated April 8, 2008, between Common Ground Broadcasting, Inc. (KPXQ-AM/Glendale, AZ) and Principal Shareholders expiring 2023.                                                           | 8-K  | 000-26497 | 04/14/08 | 10.06.25    |
| 10.06.20    | Lease Agreement, dated April 8, 2008, between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX/night sight) and Principal Shareholders expiring 2023.                                                  | 8-K  | 000-26497 | 04/14/08 | 10.06.26    |
| 10.07.01    | Asset Purchase Agreement, dated May 25, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W224BU, Lake City, Florida).                         | 10-K | 000-26497 | 03/10/17 | 10.07.01    |
| 10.07.02    | Asset Purchase Agreement, dated May 18, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W222BT, Palm Coast, Florida) (the "Palm Coast APA"). | 10-K | 000-26497 | 03/10/17 | 10.07.02    |
| 10.07.02.01 | First Amendment to Palm Coast APA dated May 25, 2016.                                                                                                                                                     | 10-K | 000-26497 | 03/10/17 | 10.07.02.01 |
| 10.07.02.02 | Second Amendment to Palm Coast APA dated July 27, 2016.                                                                                                                                                   | 10-K | 000-26497 | 03/10/17 | 10.07.02.02 |

|             |                                                                 |      |           |          |             |
|-------------|-----------------------------------------------------------------|------|-----------|----------|-------------|
| 10.07.02.03 | Third Amendment to Palm Coast APA dated July 29, 2016.          | 10-K | 000-26497 | 03/10/17 | 10.07.02.03 |
|             | First Assignment and Assumption of Purchase Agreement           |      |           |          |             |
| 10.07.02.04 | dated July 27, 2016 from Pennsylvania Media Associates, Inc.    | 10-K | 000-26497 | 03/10/17 | 10.07.02.04 |
|             | to Caron Broadcasting, Inc.                                     |      |           |          |             |
|             | Second Assignment and Assumption of Asset Purchase              |      |           |          |             |
| 10.07.02.05 | Agreement dated July 29, 2016 from Caron Broadcasting, Inc.     | 10-K | 000-26497 | 03/10/17 | 10.07.02.05 |
|             | to South Texas Broadcasting, Inc.                               |      |           |          |             |
|             | Local Marketing Agreement, dated December 15, 2016 by and       |      |           |          |             |
| 10.07.03    | between New Inspiration Broadcasting Company, Inc. and          | 8-K  | 000-26497 | 12/20/16 | 10.1        |
|             | East Bay Broadcasting, LLC (KTRB-AM, San Francisco,             |      |           |          |             |
|             | California).                                                    |      |           |          |             |
| 10.08.01    | Amended and Restated 1999 Stock Incentive Plan (as              | 8-K  | 000-26497 | 06/09/09 | 10.08.04.01 |
|             | amended and restated through June 3, 2009).                     |      |           |          |             |
| 10.08.02    | Form of stock option grant for Amended and Restated 1999        | 10-K | 000-26497 | 03/16/05 | 10.08.02    |
|             | Stock Incentive Plan.                                           |      |           |          |             |
| 10.08.03    | Form of restricted stock option grant for Amended and           | 10-Q | 000-26497 | 11/09/05 | 10.01       |
|             | Restated 1999 Stock Incentive Plan.                             |      |           |          |             |
| 10.09       | Management Services Agreement by and among Salem and            | 10-Q | 000-26497 | 05/15/01 | 10.11       |
|             | Salem Communications Holding Corporation, dated August          |      |           |          |             |
|             | 25, 2000 (incorporated by reference to previously filed exhibit |      |           |          |             |
|             | 10.11).                                                         |      |           |          |             |

|                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                   |      |           |          |      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|----------|------|
| Credit Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as the borrower, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and             |                                                                                                                                                                                                                                                                   |      |           |          |      |
| 10.10.01                                                                                                                                                                                                         | L/C Issuer and the other Lenders party thereto, Wells Fargo Securities, LLC, SunTrust Robinson Humphrey, Inc., and Rabobank, N.A., as Joint Lead Arrangers and Joint Bookrunners, SunTrust Bank, as Syndication Agent, and Rabobank, N.A. as Documentation Agent. | 8-K  | 000-26497 | 03/14/13 | 10.1 |
| Security Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as Borrower and the Guarantors party thereto and Wells Fargo Bank, National Association, as Administrative Agent. |                                                                                                                                                                                                                                                                   |      |           |          |      |
| 10.10.02                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                   | 8-K  | 000-26497 | 03/14/13 | 10.2 |
| 14                                                                                                                                                                                                               | Code of Ethics                                                                                                                                                                                                                                                    | 10-K | 000-26497 | 03/10/17 | 14   |
| 21                                                                                                                                                                                                               | Subsidiaries of Salem Media Group, Inc.                                                                                                                                                                                                                           | 10-K | 000-26497 | 03/10/17 | 21   |
| 23.1                                                                                                                                                                                                             | Consent of SingerLewak LLP, Independent Registered Public Accounting Firm.                                                                                                                                                                                        | -    | -         | -        | X    |
| 23.2                                                                                                                                                                                                             | Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.                                                                                                                                                                                      | -    | -         | -        | X    |
| 23.3                                                                                                                                                                                                             | Consent of Noble Financial Capital Markets Capital Markets dated March 4, 2015.                                                                                                                                                                                   | 10-K | 000-26497 | 03/10/17 | 23.3 |

|                                                                                                                                                                                                                                |                                                                                                                                                                                                                                        |      |           |          |     |   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|----------|-----|---|
| 31.1                                                                                                                                                                                                                           | Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.                                                                                                                              | -    | -         | -        | -   | X |
| 31.2                                                                                                                                                                                                                           | Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.                                                                                                                                       | -    | -         | -        | -   | X |
| 32.1                                                                                                                                                                                                                           | Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                            | -    | -         | -        | -   | X |
| 32.2                                                                                                                                                                                                                           | Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                     | -    | -         | -        | -   | X |
| The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the |                                                                                                                                                                                                                                        |      |           |          |     |   |
| 101                                                                                                                                                                                                                            | Consolidated Balance Sheets (ii) Consolidated Statements of Operations (iii) the Consolidated Statement of Stockholders' Equity (iv) the Consolidated Statements of Cash Flows (v) the Notes to the Consolidated Financial Statements. | 10-K | 000-26497 | 03/10/17 | 101 |   |

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 15, 2017 By: /s/ EVAN D. MASYR

Evan D. Masyr  
Executive Vice  
President and Chief  
Financial Officer

## EXHIBIT INDEX

### Exhibit

### Number Description of Exhibits

|      |                                                                                                           |
|------|-----------------------------------------------------------------------------------------------------------|
| 23.1 | Consent of SingerLewak LLP, Independent Registered Public Accounting Firm.                                |
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| 32.1 | Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.                               |
| 32.2 | Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.                                        |