SALEM MEDIA GROUP, INC. /DE/
Form 10-Q
August 07, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

OR

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

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

COMMISSION FILE NUMBER 000-26497

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

DELAWARE	**77-0121400**

(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
4880 SANTA ROSA ROAD	
CAMARILLO, CALIFORNIA	**93012**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes x No ¨

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

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

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

Yes ¨ No x

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

Class A	Outstanding at August 3, 2015
Common Stock, $0.01 par value per share	19,904,323 shares

Class B	Outstanding at August 3, 2015
Common Stock, $0.01 par value per share	5,553,696 shares

SALEM MEDIA GROUP, INC.
INDEX

CERTAIN DEFINITIONS

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

You should not place undue reliance on these forward-looking statements, which reflect our expectations based upon data available to the company as of the date of this report. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in Salem’s reports on Forms 10-K, 10-Q and 8-K filed with or furnished to the Securities and Exchange Commission. Except as required by law, the company undertakes no obligation to update or revise any forward-looking statements made in this report. Any such forward-looking statements, whether made in this report or elsewhere, should be considered in context with the various disclosures made by Salem about its business. These projections and other forward-looking statements fall under the safe harbors of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

PART I – FINANCIAL INFORMATION

SALEM MEDIA GROUP, INC.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

	December 31, 2014 (Note 1)	June 30, 2015 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33	$ 192
Trade accounts receivable (net of allowances of $12,727 in 2014 and $12,678 in 2015)	34,781	34,842
Other receivables	3,546	1,558
Inventories (net of reserves of $1,227 in 2014 and $1,499 in 2015)	572	858
Prepaid expenses	5,580	6,771
Income tax receivable	—	17
Deferred income taxes	8,153	8,153
Assets held for sale	1,700	1,700
Total current assets	54,365	54,091
Notes receivable (net of allowances of $539 in 2014 and $476 in 2015)	228	173
Fair value of interest rate swap	475	—
Property and equipment (net of accumulated depreciation of $155,495 in 2014 and $158,949 in 2015)	99,227	101,843
Broadcast licenses	385,726	387,367
Goodwill	24,684	24,816
Other indefinite-lived intangible assets	833	833
Amortizable intangible assets (net of accumulated amortization of $34,130 in 2014 and $36,774 in 2015)	12,395	11,343
Deferred financing costs	3,166	2,826
Other assets	2,060	2,699
Total assets	$ 583,159	$ 585,991
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current liabilities:		
Accounts payable	$ 2,964	$ 4,587
Accrued expenses	12,704	11,920
Accrued compensation and related expenses	8,777	8,320
Accrued interest	48	49
Deferred revenue	13,205	12,695
Income tax payable	154	—
Current portion of long-term debt and capital lease obligations	1,898	5,327
Total current liabilities	39,750	42,898
Long-term debt and capital lease obligations, less current portion	275,607	272,912
Fair value of interest rate swap	—	501
Deferred income taxes	49,109	51,306
Deferred revenue	10,576	11,851
Other liabilities	4,123	1,115
Total liabilities	379,165	380,583
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 22,082,140 and 22,219,848 issued and 19,764,490 and 19,902,198 outstanding at December 31, 2014 and June 30, 2015, respectively	221	222
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2014 and June 30, 2015, respectively	56	56
Additional paid-in capital	240,493	241,389
Accumulated deficit	(2,770)	(2,253)
Treasury stock, at cost (2,317,650 shares at December 31, 2014 and June 30, 2015)	(34,006)	(34,006)
Total stockholders' equity	203,994	205,408
Total liabilities and stockholders' equity	$ 583,159	$ 585,991

See accompanying notes

3

SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)

(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2015	Six Months Ended June 30, 2014	Six Months Ended June 30, 2015
Net broadcast revenue	$49,129	$49,060	$95,898	$95,599
Net digital media revenue	12,319	11,499	23,631	22,290
Net publishing revenue	7,189	6,734	11,452	11,260
Total net revenue	68,637	67,293	130,981	129,149
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including $364 and $365 for the three months ended June 30, 2014 and 2015, respectively, and $723 and $730 for the six months ended June 30, 2014 and 2015, respectively, paid to related parties)	35,815	35,187	69,161	69,104
Digital media operating expenses, exclusive of depreciation and amortization shown below	9,270	8,767	18,120	17,767
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,809	6,469	11,815	10,966
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including $5 and $36 for the three months ended June 30, 2014 and 2015, respectively, and $169 and $69 for the six months ended June 30, 2014 and 2015, respectively paid to related parties)	3,976	3,518	9,040	7,509
Depreciation	3,167	3,060	6,296	6,232
Amortization	1,529	1,315	3,137	2,644
Change in the estimated fair value of contingent earn-out consideration	242	(307)	369	(189)
Loss on the sale or disposal of assets	338	30	221	159
Total operating expenses	61,146	58,039	118,159	114,192
Operating income	7,491	9,254	12,822	14,957
Other income (expense):				
Interest income	26	2	41	3
Interest expense	(4,068)	(3,874)	(7,847)	(7,678)
Change in the fair value of interest rate swap	(1,373)	444	(2,469)	(976)
Loss on early retirement of long-term debt	—	—	(8)	(41)
Net miscellaneous income and expenses	14	—	80	7
Income from operations before income taxes	2,090	5,826	2,619	6,272

Provision for income taxes	827	2,303	925	2,454
Net income	$1,263	$3,523	$1,694	$3,818
Basic earnings per share data:				
Basic earnings per share	$0.05	$0.14	$0.07	$0.15
Diluted earnings per share data:				
Diluted earnings per share	$0.05	$0.14	$0.07	$0.15
Distributions per share	$0.06	$0.07	$0.12	$0.13
Basic weighted average shares outstanding	25,172,696	25,429,127	25,118,839	25,387,813
Diluted weighted average shares outstanding	25,950,600	25,829,493	25,916,205	25,875,306

See accompanying notes

4

SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2014	2015
OPERATING ACTIVITIES		
Net income	$1,694	$3,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	932	487
Tax benefit related to stock options exercised	77	112
Depreciation and amortization	9,433	8,876
Amortization of bank loan fees	344	314
Accretion of discount on Term Loan B	94	93
Accretion of acquisition-related deferred payments and contingent consideration	540	160
Provision for bad debts	1,510	911
Deferred income taxes	648	2,197
Change in the fair value of interest rate swap	2,469	976
Change in the estimated fair value of contingent earn-out consideration	369	(189)
Loss on early retirement of long-term debt	8	41
Loss on the sale or disposal of assets	221	159
Changes in operating assets and liabilities:		
Accounts receivable	4,024	6,315
Prepaid expenses and other current assets	(407)	(1,463)
Accounts payable and accrued expenses	3,512	(2,674)
Deferred revenue	(3,733)	(4,359)
Other liabilities	(767)	327
Income taxes payable	(38)	(154)
Net cash provided by operating activities	20,930	15,947
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(5,980)	(4,207)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(137)	(947)
Escrow deposits related to acquisitions	(50)	(225)
Purchases of broadcast assets and radio stations	(4,563)	(5,186)
Purchases of digital media businesses and assets	(3,129)	(1,322)
Purchases of publishing businesses and assets	(2,774)	—
Proceeds from the sale of assets	2	—
Other	(228)	(390)
Net cash used in investing activities	(16,859)	(12,277)
FINANCING ACTIVITIES		

Payments under Term Loan B	(2,250)	(2,000)
Proceeds from borrowings under Revolver	26,392	27,222
Payments under Revolver	(25,718)	(24,538)
Payments of costs related to bank credit facility	(14)	—
Payments of acquisition related contingent earn-out consideration	—	(1,177)
Payments of deferred installments due from acquisition activity	—	(935)
Proceeds from the exercise of stock options	975	298
Payments on capital lease obligations	(62)	(58)
Payment of cash distributions on common stock	(2,958)	(3,301)
Book overdraft	(269)	978
Net cash used in financing activities	(3,904)	(3,511)
Net increase in cash and cash equivalents	167	159
Cash and cash equivalents at the beginning of year	65	33
Cash and cash equivalents at end of period	232	192

See accompanying notes

SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Dollars in thousands)

(Unaudited)

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Cash paid for interest, net of capitalized interest	$6,682	$7,071
Cash paid for income taxes	$238	$316
Other supplemental disclosures of cash flow information:		
Trade revenue	$3,524	$3,189
Trade expense	$3,379	$2,960
Non-cash investing and financing activities:		
Capital expenditures reimbursable under tenant improvement allowances	$137	$947
Non-cash capital expenditures for property & equipment acquired under trade agreements	$—	$11
Estimated present value of contingent earn-out consideration	$2,047	$300
Deferred payments due 2014 under asset purchase agreement	$300	$—
Present value of deferred cash payments (due 2015)	$2,392	$—
Present value of deferred cash payments (due 2016)	$2,289	$—

See accompanying notes

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

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

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

Information with respect to the three and six months ended June 30, 2015 and 2014 is unaudited. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The unaudited interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Salem filed on Form 10-K for the year ended December 31, 2014. Our results are subject to seasonal fluctuations. Therefore, the results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The balance sheet at December 31, 2014 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

Description of Business

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

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® ("SRN"), SRN News Network ("SNN"), Salem Music Network ("SMN"), Solid Gospel Network ("SGN") and Salem Media Representatives ("SMR"). SRN, SNN, SMN and SGN 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 11 U.S. cities, specializes in placing national advertising on religious and other commercial radio stations.

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

E-commerce sites include Salem Consumer Products ("SCP"), an e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities and Eagle Wellness and Gene Smart Wellness, online sites offering complementary health advice and sales of nutritional products.

On January 10, 2014, we acquired Regnery Publishing which resulted in a major shift in our publishing operating segment. Regnery Publishing is a publisher of conservative books that was founded in 1947. Regnery has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, Michelle Malkin, David Limbaugh, Ed Klein, Laura Ingraham, Mark Steyn and Dinesh D'Souza.

Our publishing operating segment also includes Salem Publishing™ and Xulon Press. Salem Publishing™ produces and distributes numerous Christian and conservative opinion print magazines, including*: Homecoming® The Magazine, YouthWorker Journal,*™ *Singing News®, FaithTalk Magazine,*™ and *Preaching Magazine*™. Through December 2014, we also printed and produced *Townhall Magazine*™. Xulon Press™ is a print-on-demand self-publishing service for Christian authors.

7

Variable Interest Entities

We account for entities qualifying as variable interest entities ("VIEs") in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation,* which requires VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. 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 may enter into Local Marketing Agreements ("LMAs") contemporaneously with entering an Asset Purchase Agreement ("APA") to acquire or sell a radio station. We may also enter into Time Brokerage Agreements ("TBAs"). Typically, both LMAs and TBAs are contractual agreements under which the station owner/licensee makes airtime available to a programmer/licensee in exchange for a fee and reimbursement of certain expenses. LMAs and TBAs are subject to compliance with the antitrust laws and the communications laws, including the requirement that the licensee must maintain independent control over the station and, in particular, its personnel, programming, and finances. The FCC has held that such agreements do not violate the communications laws as long as the licensee of the station receiving programming from another station maintains ultimate responsibility for, and control over, station operations and otherwise ensures compliance with the communications laws.

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of June 30, 2015, we did not consolidate any entities with which we entered into LMAs or TBAs under the guidance in FASB ASC Topic 810.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas for which management uses estimates include: (1) asset impairments, including broadcasting licenses, goodwill and other indefinite-lived intangible assets; (2) income tax valuation allowances; (3) uncertain tax positions; (4) allowance for doubtful accounts; (5) inventory reserves; (6) reserves for royalty advances; (7) self-insurance reserves; (8) fair value of equity awards; (9) estimated lives for tangible and intangible assets; (10) fair value measurements; (11) contingency reserves; (12) probabilities associated with the potential for contingent earn-out consideration; and (13) sales returns and allowances. 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 change in composition of our operating segments based on our acquisition of Eagle Publishing during 2014 to conform to how our chief operating decision makers, who 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. Refer to Note 17 – Segment Data for additional information.

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

Approximately 71% of our total assets as of June 30, 2015 consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and mastheads account for the remaining 6%. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

We complete our annual impairment tests in the fourth quarter of each year. We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* as Level 3 inputs discussed in detail in Note 14. There were no indications of impairment present as of the period ending June 30, 2015.

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. In accordance with authoritative guidance for impairment of long-lived assets, we must estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements for our long-lived assets use significant observable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. There were no indications of impairment present as of the period ending June 30, 2015.

NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the six months ending June 30, 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 June 2, 2015 we announced a quarterly distribution in the amount of $0.0650 per share on Class A and Class B common stock. The 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 distribution in the amount of $0.0650 per share on Class A and Class B common stock. The 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 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 completed the acquisition of radio station WPGP-AM (formerly WDDZ-AM) in Pittsburgh, Pennsylvania, for $1.0 million in cash. The accompanying condensed consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment. We recorded goodwill of $5,400 associated with the going concern value of this radio station.

On May 7, 2015, we completed the acquisition of radio station WDWD-AM in Atlanta, Georgia, for $2.8 million in cash. The accompanying condensed consolidated statements of operations reflect the operating results of this station as of the closing date within the broadcast operating segment. We recorded goodwill of $5,200 associated with the going concern value of this radio station.

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. The estimated fair value of the contingent earn-out consideration was determined using a probability weighted discounted cash flow model. The fair value measurement includes revenue forecasts which are a Level 3 measurement as discussed in Note 14 to our condensed consolidated financial statements. The fair value of the contingent earn-out consideration will be reviewed quarterly over the two year earn-out period based on actual benchmarks achieved as compared to the estimates used in our forecasts. Changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in future periods as 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. There were no changes in fair value or contingent earn-out estimates as of the period ending June 30, 2015. The accompanying condensed consolidated statements of operations reflect the operating results of the Daily Bible Devotional as of the closing date within our digital media operating segment. We recorded goodwill of $0.1 million associated with the organizational systems and procedures in place at the time of our purchase.

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 completed the acquisition of radio station WDYZ-AM in Orlando, Florida, for $1.3 million in cash. We began operating this station under an APA as of December 10, 2014. The accompanying condensed consolidated statements of operations reflect the operating results of this station as of the APA date within the broadcast operating segment. We recorded goodwill of $3,200 associated with the going concern value of this radio station.

On February 6, 2015, we acquired the assets and assumed deferred subscription liabilities for Bryan Perry's Cash Machine and Bryan Perry's Premium Income financial publications ("Bryan Perry Newsletters"). We recorded the net assets acquired at their estimated fair value of $0.2 million. We paid no cash to the seller upon closing. 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. As of June 30, 2015, we paid $14,167 to the seller as contingent consideration, which is consistent with the estimates used in our purchase price allocation. The estimated fair value of the contingent earn-out consideration was determined using a probability weighted discounted cash flow model. The fair value measurement includes revenue forecasts which are a Level 3 measurement as discussed in Note 14 to our condensed consolidated financial statements. The fair value of the contingent earn-out consideration will be reviewed quarterly over the two year earn-out period based on actual subscription revenue earned as compared to the estimated subscription revenue used in our forecasts. Changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in future periods as 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. There were no changes in fair value or contingent earn-out estimates as of the six months ending June 30, 2015. The accompanying condensed consolidated statements of operations reflect the operating results of the Bryan Perry newsletters as of the closing date within our digital media operating segment. We recorded goodwill of $2,600 associated with the organizational systems and procedures in place at the time of our purchase.

Throughout the six month period ending June 30, 2015, we acquired domain names and other 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 six months ended June 30, 2015, none of which were individually or in the aggregate material to our Condensed Consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost (Dollars in thousands)

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 (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)		122
		$	6,873

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 net assets acquired.

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with acquisitions, such as consulting and legal fees are expensed as incurred in corporate operating expenses. We recognized costs associated with acquisitions of $0.2 million during the six month period ending June 30, 2015 compared to $0.3 million during the same period of the prior year, which are included in unallocated corporate expenses in the accompanying condensed consolidated statements of operations.

The total acquisition consideration is equal to the sum of all cash payments, the fair value of any deferred payments and promissory notes, and the present value of any estimated contingent earn-out consideration. We estimate the fair value of contingent earn-out consideration using a probability-weighted discounted cash flow model. The fair value measurement is based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Note 14 -Fair Value Measurements. The following table summarizes the total acquisition consideration for the six months ended June 30, 2015:

Description	Total Consideration (Dollars in thousands)	
Cash payments	$	6,508
Escrow deposits paid in prior years		65
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 purchase price consideration	$	6,873

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

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Net Assets Acquired
	(Dollars in thousands)		
Assets			
Property and equipment	$3,823	$ 361	$ 4,184
Broadcast licenses	1,414	—	1,414
Goodwill	14	118	132
Customer lists and contracts	—	15	15
Domain and brand names	—	404	404
Subscriber base and lists	—	1,122	1,122
Non-compete agreements	—	49	49

Liabilities			
Deferred revenues	—	(447)	(447)
	$5,251	$ 1,622	$ 6,873

Pending Transactions

On June 2, 2015, we entered an APA to acquire Daily Bible mobile applications, including content, code and functionality for $1.5 million in cash. We expect the transaction to close in the third quarter of 2015.

On May 22, 2015, we entered an APA to acquire radio station WMKI-AM in Boston, Massachusetts, for $0.5 million in cash. The purchase is subject to the approval of the FCC and is expected to close in the third quarter of 2015.

On May 22, 2015, we entered an APA to acquire radio station KMKI-AM in Dallas, Texas, for $3.0 million in cash. The purchase is subject to the approval of the FCC and is expected to close in the third quarter of 2015.

On April 1, 2015, we entered an APA to acquire radio station KKSP-FM in Little Rock, Arkansas, for $1.5 million in cash. We began programming KKSP-FM, Little Rock, Arkansas, and KHTE-FM, Little Rock, Arkansas under TBA's as of April 1, 2015. The purchase of KKSP-FM is subject to the approval of the FCC and is expected to close in the third quarter of 2015. We will continue to program KHTE-FM under the TBA agreement.

NOTE 5. CONTINGENT EARN-OUT CONSIDERATION

Our acquisitions may include contingent consideration as part of the purchase price. The fair value of the contingent consideration is estimated as of the acquisition date based on the present value of the contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. The unobservable inputs used in determining the fair value of the contingent consideration include assumptions as to the ability of the acquired businesses to meet the targets and discount rates used in the calculation. Should the actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the fair value of the contingent consideration obligations would increase or decrease, up to the contracted limit, as applicable.

The fair value measurement includes revenue forecasts which are a Level 3 measurement as discussed in Note 14 to our condensed consolidated financial statements. Any changes in the estimated fair value of the contingent earn-out consideration, up to the contractual amounts as applicable, are reflected in our results of operations in the periods they are identified. Any changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our future operating results.

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 the terms of the APA, we may pay up to an additional $.03 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. The fair value of the contingent earn-out consideration will be reviewed quarterly over the two year earn-out period based on actual benchmarks achieved as compared to the estimates 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 future periods as 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. There were no changes in fair value or contingent earn-out estimates as of the period ending June 30, 2015.

On February 6, 2015, we recorded an estimate of contingent earn-out consideration payable upon the realization of subscription revenue from our acquisition of the Bryan Perry Newsletters over a two year period. Using a probability-weighted discounted cash flow model, we estimated the fair value of the contingent earn-out consideration to be $171,000, which we recorded at the present value of $158,000. There is no minimum or maximum contractual amount that we may be required to pay to the seller. We believe that our experience with digital publications and renewals provides a reasonable basis for our estimate. The fair value of the contingent earn-out consideration will be reviewed quarterly over the two year earn-out period based on actual subscription revenue earned as compared to the estimated subscription revenue 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 future periods as 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. There were no changes in our estimates as of the three or six months ending June 30, 2015.

On January 10, 2014, we recorded an estimate of contingent earn-out consideration payable upon achievement of certain revenue benchmarks over a three-year period related to our acquisition of Eagle Publishing, including Regnery Publishing, HumanEvents.com, RedState.com, Eagle Financial Publications and Eagle Wellness. Using a probability-weighted discounted cash flow model, we estimated the fair value of the $8.5 million total contingent earn-out consideration at the present value of $2.0 million as of the closing date. We recorded net increases of $0.4 million in the fair value of the contingent earn-out consideration associated with Eagle entities of which $22,000 is reflected in our results of operations for the six months ending June 30, 2015. The net increase reflects actual revenues earned by Eagle entities in excess of those estimated at the time of our projections. We will continue to review our estimates over the remaining earn-out period of 1.5 years. As of June 30, 2015, we have paid Eagle of $0.9 million of amounts earned under the contingent consideration arrangement and we may pay up to an additional $6.0 million over the remaining earn-out period based on the achievement of certain revenue benchmarks. The estimated fair value of the contingent earn-out consideration is recorded at the present value of $1.7 million at June 30, 2015.

On December 10, 2013, we recorded an estimate of contingent earn-out consideration payable upon achievement of page view milestones over a two-year period related to our acquisition of Twitchy.com. Using a probability-weighted discounted cash flow model, we estimated the fair value of the $1.2 million total contingent earn-out consideration at the present value of $0.6 million as of the closing date. We recorded a net increase of $0.1 million in the fair value of the contingent earn-out consideration associated with Twitchy.com of which a decrease of $ 0.2 million is reflected in our results of operations for the six months ending June 30, 2015. The change reflects actual page views for the current year that are below those estimated at the time of our projections. We will continue to review our estimates over the remaining 0.5 years earn-out period. As of June 30, 2015, we have paid $0.6 million in cash toward the contingent earn-out consideration and may pay up to an additional $0.7 million over the remaining earn-out based on the achievement of certain page view milestones established in the purchase agreement. The estimated fair value of the contingent earn-out consideration is recorded at the present value of $0.2 million at June 30, 2015.

Any changes in the estimated fair value of the contingent earn-out consideration, up to the contracted amount as applicable, will be reflected in our results of operations in future periods as 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.

The following table reflects the changes in the present value of our acquisition-related contingent earn-out consideration for the three and six months ended June 30, 2015:

	Three Months ending June 30, 2015		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of April 1, 2015	$ 2,251	$ 1,035	$ 3,286
Acquisitions	88	54	142
Accretion of acquisition-related contingent consideration	21	11	32
Change in the estimated fair value of contingent earn-out consideration	(293)	(14)	(307)
Reclassification of payments due in next 12 months to short-term	—	—	—
Payments	(877)	—	(877)
Ending Balance as of June 30, 2015	$ 1,190	$ 1,086	$ 2,276

	Six Months ending June 30, 2015		
	Short-Term Accrued Expenses	Long-Term Other Liabilities	Total
	(Dollars in thousands)		
Beginning Balance as of January 1, 2015	$ 1,575	$ 1,710	$ 3,285
Acquisitions	176	124	300
Accretion of acquisition-related contingent consideration	31	26	57
Change in the estimated fair value of contingent earn-out consideration	(213)	24	(189)
Reclassification of payments due in next 12 months to short-term	798	(798)	—
Payments	(1,177)	—	(1,177)
Ending Balance as of June 30, 2015	$ 1,190	$ 1,086	$ 2,276

NOTE 6. STOCK INCENTIVE PLAN

The company has one stock incentive plan. The Amended and Restated 1999 Stock Incentive Plan (the “Plan”) allows the company to grant stock options and restricted stock to employees, directors, officers and advisors of the company. A maximum of 5,000,000 shares are authorized under the Plan. Options generally vest over a four-year period and have a maximum term of five years from the vesting date. The Plan provides that vesting may be accelerated upon the occurrence of certain corporate transactions of the company. The Plan provides that the Board of Directors, or a committee appointed by the Board, has discretion, subject to certain limits, to modify the terms of outstanding options. We recognize non-cash stock-based compensation expense related to the estimated fair value of stock options granted in accordance with FASB ASC Topic 718, *Compensation—Stock Compensation*.

The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
	(Dollars in thousands)			
Stock option compensation expense included in corporate expenses	$215	$88	$ 620	$ 316
Restricted stock awards compensation expense included in corporate expenses	—	14	—	15
Stock option compensation expense included in broadcast operating expenses	64	25	189	77
Stock option compensation expense included in digital media operating expenses	36	19	94	55
Stock option compensation expense included in publishing operating expenses	14	10	29	24
Total stock-based compensation expense, pre-tax	$329	$156	$ 932	$ 487
Tax provision for stock-based compensation expense	(132)	(63)	(373)	(195)
Total stock-based compensation expense, net of tax	$197	$93	$ 559	$ 292

Stock option and restricted stock grants

The Plan allows the company to grant stock options and shares of restricted stock to employees, directors, officers and advisors of the company. For grants of stock options, the option exercise price is set at the closing price of the company’s common stock on the date of grant, and the related number of shares underlying the stock option is fixed at that point in time. The Plan also provides for grants of restricted stock. Eligible employees may receive stock options annually with the number of shares and type of instrument generally determined by the employee’s salary grade and performance level. In addition, certain management and professional level employees typically receive a stock option grant upon commencement of employment. The Plan does not allow key employees and directors (restricted persons) to exercise options during pre-defined blackout periods. Employees may participate in plans established pursuant to Rule 10b5-1 under the Exchange Act that allow them to exercise options according to pre-established criteria.

We use the Black-Scholes valuation model to estimate the grant date fair value of stock options and of restricted stock. 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 that is generally commensurate with the expected term of the award. Expected dividends reflect the 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 three and six months ended June 30, 2014 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Expected volatility	67.08 %	**n/a**	74.98 %	52.37 %
Expected dividends	2.82 %	**n/a**	2.70 %	4.28 %
Expected term (in years)	8.0	**n/a**	7.8	3.0
Risk-free interest rate	2.21 %	**n/a**	2.27 %	0.85 %

Stock option information with respect to the company's stock-based equity plans during the six months ended June 30, 2015 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)				
Outstanding at January 1, 2015	1,816,204	$ 4.88	$ 3.39	4.8 years	$ 5,718
Granted	10,000	6.08	1.98		
Exercised	(137,708)	2.16	1.31		
Forfeited or expired	(54,462)	12.15	8.05		
Outstanding at June 30, 2015	1,634,034	$ 4.87	$ 3.40	4.7 years	$ 2,979
Exercisable at June 30, 2015	885,859	$ 5.22	$ 3.72	3.6 years	$ 1,365
Expected to Vest	710,395	$ 4.46	$ 3.01	6.0 years	$ 1,532

The aggregate intrinsic value represents the difference between the company's closing stock price on June 30, 2015 of $6.33 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the six months ended June 30, 2014 and 2015 was $1.5 million and $1.3 million, respectively.

Non-employee directors of the company have been awarded restricted stock awards 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 common stock on the grant dates. Information regarding the company's restricted stock awards during the six months ended June 30, 2015 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)			
Outstanding at January 1, 2015	—	$ —		$ —
Granted	10,000	5.83	1.0 years	63
Vested	—	—		
Forfeited	—	—		
Unvested outstanding at June 30, 2015	10,000	$ 5.83	0.7 years	$ 63

As of June 30, 2015, there was $0.6 million of total unrecognized compensation cost related to non-vested awards of stock. This cost is expected to be recognized over a weighted average period of 1.24 years.

NOTE 7. RECENT ACCOUNTING PRONOUNCEMENTS

Changes to accounting principles are established by the FASB in the form of accounting standards updates ("ASU's") to the FASB's Accounting Standards Codification. We consider the applicability and impact of all ASU's. ASU's that are not listed below were assessed and determined to be not applicable to our financial position, results of operations, cash flows, or presentation thereof.

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements,* which covers a wide range of Topics in the Codification. The amendments in this ASU represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. As the objectives of this standard are to clarify the Codification; correct unintended application of guidance, eliminate inconsistencies, and to improve the codification’s presentation of guidance, the adoption of this standard is not expected to impact our financial position, results of operations, cash flows, or presentation thereof.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new standard is effective for fiscal years beginning after December 15, 2015, and for interim reporting periods within those fiscal years, with early adoption permitted. The new guidance is to be applied on a retrospective basis and reported as a change in accounting principle. The adoption of ASC Update 2015-03 will affect our balance sheet presentation only and will have no impact on our financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): *Amendments to the Consolidation Analysis*, which modifies existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes reduce the number of consolidation models from four to two and place more emphasis on the risk of loss when determining a controlling financial interest. This guidance is effective for fiscal years beginning after December 15, 2015. We are in the process of evaluating the adoption of this ASU, but do not expect this to have a material effect on our financial position, results of operations or cash flows.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard is effective as of the first interim period within annual reporting periods beginning on or after December 15, 2016, and will replace most existing revenue recognition guidance in U.S. GAAP. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of ASU 2014-09 on our financial position, results of operations, cash flows, or presentation thereof.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. ASU 2014-08 limits the requirement to report discontinued operations to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. The amendments also require expanded disclosures concerning discontinued operations and disclosures of certain financial results attributable to a disposal of a significant component of an entity that does not qualify for discontinued operations reporting. These amendments are effective prospectively for reporting periods beginning on or after December 15, 2014, with early adoption permitted. We elected early adoption of the provisions of ASU 2014-08 as of the annual period ending December 31, 2014. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

NOTE 8. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. As a result, \$0.2 million and \$0.5 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and six months ended June 30, 2015, respectively, in comparison to \$0.3 million and \$0.9 million for the three and six months ended June 30, 2014.

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

The following table shows distributions that have been declared and paid since January 1, 2014:

Announcement Date	Payment Date	Amount Per Share	Cash Distributed
			(*Dollars in thousands*)
June 2, 2015	June 30, 2015	$ 0.0650	$ 1,654
March 5, 2015	March 31, 2015	$ 0.0650	1,647
December 2, 2014	December 29, 2014	$ 0.0650	1,646
September 2, 2014	September 30, 2014	$ 0.0625	1,579
May 27, 2014	June 30, 2014	$ 0.0600	1,514
March 6, 2014	March 31, 2014	$ 0.0575	1,444

Based on the number of shares of Class A and Class B currently outstanding, and the currently approved distribution amount, we expect to pay total annual distributions of approximately $6.6 million for the year ending December 31, 2015.

NOTE 9. NOTES PAYABLE AND LONG-TERM DEBT

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

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of the Term Loan B of $300.0 million and a revolving credit facility of $25.0 million (“Revolver”). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the three and six months ended June 30, 2014 and 2015, approximately $48,000 and $94,000, respectively, and $47,000 and $93,000, respectively, of the discount has been recognized as interest expense including approximately $27,000 of bank loan fees.

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 which began on September 30, 2013 for the Term Loan B. Prepayments may be made against the outstanding balance of our Term Loan B. Each repayment of the outstanding 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.

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

Date	Principal Paid	Unamortized Discount
	(Dollars in Thousands)	
January 30, 2015	$ 2,000	$ 15
December 31, 2014	4,000	16
November 28, 2014	4,000	15
September 29, 2014	5,000	18
March 31, 2014	2,250	8
December 30, 2013	750	3
September 30, 2013	4,000	16
June 28, 2013	4,000	14

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’s 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 June 30, 2015, the blended interest rate on amounts outstanding under the Term Loan B and Revolver was 5.04%.

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

The obligations under the credit agreement and the related loan documents are secured by liens on substantially all of the assets of Salem and its subsidiaries, other than certain exceptions set forth in the Security Agreement, dated as of March 14, 2013, among Salem, the subsidiary guarantors party thereto, and Wells Fargo Bank, National Association, 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 steps up to 2.50 to 1.0 by 2016 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 June 30, 2015, our leverage ratio was 5.39 to 1 compared to our compliance covenant of 6.25 and our interest coverage ratio was 3.30 compared to our compliance ratio of 2.25. We were in compliance with our debt covenants under the credit facility at June 30, 2015.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2014 and June 30, 2015 represents the present value of future commitments under the capital lease agreements.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2014	As of June 30, 2015
	(Dollars in thousands)	
Term Loan B	$ 274,933	$ 273,041
Revolver	1,784	4,468
Capital leases and other loans	788	730
	277,505	278,239
Less current portion	(1,898)	(5,327)
	$ 275,607	$ 272,912

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2015:

- Outstanding borrowings of $274.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%; and

- Outstanding borrowings of $4.5 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.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2015 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended June 30,	Amount (Dollars in thousands)
2016	$ 5,327
2017	3,109
2018	3,112
2019	3,102
2020	3,103
Thereafter	260,486
	$ 278,239

NOTE 10. DEFERRED FINANCING COSTS

Deferred financing costs consist of bank loan fees incurred upon entering our Term Loan B and Revolver as of March 14, 2013. The costs are being amortized over the seven year term of the Term Loan B and the five year term of the Revolver as an adjustment to interest expense. During the six months ended June 30, 2015, approximately $27,000 of bank loan fees were written off in conjunction with the early retirement of the Term Loan B. Deferred financing costs were $3.2 million at December 31, 2014 and $2.8 million at June 30, 2015.

NOTE 11. AMORTIZABLE INTANGIBLE ASSETS

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

	As of June 30, 2015		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$19,925	$ (17,824)	$2,101
Domain and brand names	15,871	(10,458)	5,413
Favorable and assigned leases	2,379	(1,842)	537
Subscriber base and lists	5,424	(3,142)	2,282
Author relationships	2,245	(1,451)	794
Non-compete agreements	937	(721)	216
Other amortizable intangible assets	1,336	(1,336)	—
	$48,117	$ (36,774)	$11,343

	As of December 31, 2014		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$19,910	$ (16,558)	$3,352
Domain and brand names	15,465	(9,722)	5,743
Favorable and assigned leases	2,379	(1,795)	584
Subscriber base and lists	4,302	(2,671)	1,631
Author relationships	2,245	(1,379)	866
Non-compete agreements	888	(669)	219
Other amortizable intangible assets	1,336	(1,336)	—
	$46,525	$ (34,130)	$12,395

Based on the amortizable intangible assets as of June 30, 2015, we estimate amortization expense for the next five years to be as follows:

Year Ending December 31,	Amortization Expense
	(Dollars in thousands)
2015 (July – Dec)	$ 2,463
2016	3,266
2017	1,862
2018	1,632
2019	1,228

Thereafter		892
Total	$	11,343

NOTE 12. BASIC AND DILUTED NET EARNINGS PER SHARE

Basic net earnings per share is 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 1,913,958 and 1,634,034 shares of Class A common stock were outstanding at June 30, 2014 and 2015, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. As of June 30, 2014 and 2015 there were 777,904 and 400,366 dilutive shares, respectively.

NOTE 13. DERIVATIVE INSTRUMENTS

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

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

On March 27, 2013, we entered into an interest rate swap agreement with Wells Fargo 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. Changes in the fair value of this non-cash flow hedge 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 June 30, 2015, 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 in Note 14.

	As of December 31, 2014	As of June 30, 2015
	(Dollars in thousands)	
Fair value of interest rate swap asset (liability)	$ 475	$ (501)

NOTE 14. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* established a single definition of fair value in generally accepted accounting principles and expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. We adopted the fair value provisions for financial assets and financial liabilities effective January 1, 2008. The adoption had a material impact on our consolidated financial position, results of operations or cash flows. We adopted fair value provisions for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. The adoption of the fair value provisions of FASB ASC Topic 820 to nonfinancial assets and nonfinancial liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows.

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

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

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

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

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

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

19

As of June 30, 2015, 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. The following table summarizes the fair value of our financial assets and liabilities that are measured at fair value:

	June 30, 2015 Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 192	$ 192	$ —	$ —
Trade accounts receivable, net	34,842	34,842	—	—
Liabilities:				
Accounts payable	4,587	4,587	—	—
Accrued expenses including estimated fair value of contingent earn-out consideration	11,920	10,730	—	1,190
Accrued interest	49	49	—	—
Long term liabilities including estimated fair value of contingent earn-out consideration	1,115	29	—	1,086
Long-term debt	278,239	278,239	—	—
Fair value of interest rate swap	501	—	501	—

NOTE 15. INCOME TAXES

We account for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. We recorded no adjustments to our unrecognized tax benefits as of June 30, 2015 and 2014. At December 31, 2014, we had $0.5 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.02 million accrued for the related interest, net of federal income tax benefits, and $0.02 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations. We expect to reduce the reserve balance by $0.4 million over the next twelve months due to statute expirations.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of $3.0 million as of June 30, 2015 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. We regularly review our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on our estimate of the benefit the company will receive from such carryforwards.

NOTE 16. COMMITMENTS AND CONTINGENCIES

The company enters into various agreements in the normal course of business that contain minimum guarantees. These minimum guarantees are often tied to future events, such as future revenue earned in excess of the contractual level. Accordingly, the fair value of these arrangements is zero. The company also records contingent earn-out consideration representing the estimated fair value of future liabilities associated with acquisitions that may have additional payments due upon the achievement of certain performance targets. The fair value of the contingent earn-out consideration is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the expected payment amounts.

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. The company maintains insurance that may provide coverage for such matters. Consequently, the company is unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. 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 annual consolidated financial position, results of operations or cash flows.

NOTE 17. SEGMENT DATA

FASB ASC Topic 280, *Segment Reporting*, requires companies to provide certain information about their operating segments. We have two reportable segments, radio broadcasting and digital media. Digital media (formerly “Internet and e-commerce”) became a reportable segment as of the first quarter of 2011 upon the realization of organic and acquisition-related revenue growth. Our acquisition of Eagle Publishing on January 10, 2014, which included Regnery Publishing, Eagle Financial Publications, Eagle Wellness, Human Events and Red State, resulted in operational changes in our business and a realignment of our operating segments. We now have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing.

We changed the composition of our operating segments to reflect management's view of the operating results for each segment during the fourth quarter of 2014. Under our new composition, digital revenue generated by our broadcast stations is now reported under broadcast operating revenue as the station sales team and general manager are responsible for this digital revenue under their bonus and commission structure. Digital revenue from our broadcast stations was previously reported as Internet and e-Commerce revenue. E-book revenue is now reported under Publishing revenue as sales goals and bonuses for Eagle Regnery Publishing are inclusive of sales of e-books. The sale of e-Books was previously reported as Internet & e-commerce revenue. Additionally, we have allocated specific corporate departments, such as engineering, broadcast operations, digital and publishing within their respective operating segments. Corporate expenses as revised include unallocated expenses, such as accounting and finance, human resources, and other shared functions.

Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assesses the performance of each operating segment and determines the appropriate allocations of resources to each segment. Our operating segments do not all meet the quantitative thresholds to qualify as reportable segments; however, we have elected to disclose the results of these non-reportable operating segments as we believe this information is useful to readers of our financial statements. 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 have been updated to reflect the new composition of our operating segments.

Segment performance, as we define it in accordance with the FASB's guidance relating to segment reporting, is not necessarily comparable to other similarly titled captions of other companies. The table below presents financial information for each operating segment as of June 30, 2014 and 2015 based on the new composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
	(Dollars in thousands)				
Three Months Ended June 30, 2015					
Net revenue	$49,060	$ 11,499	$ 6,734	$ —	$ 67,293
Operating expenses	35,187	8,767	6,469	3,518	53,941
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on	$13,873	$ 2,732	$ 265	$ (3,518)	$ 13,352

disposal of assets					
Depreciation	1,889	782	167	222	3,060
Amortization	23	1,156	135	1	1,315
Change in the estimated fair value of contingent earn-out consideration	—	(244)	(63)	—	(307)
Loss on disposal of assets	30	—	—	—	30
Net operating income (loss)	$11,931	$ 1,038	$ 26	$ (3,741)	$ 9,254
Three Months Ended June 30, 2014					
Net revenue	$49,129	$ 12,319	$ 7,189	$ —	$ 68,637
Operating expenses	35,815	9,270	6,809	3,976	55,870
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on disposal of assets	$13,314	$ 3,049	$ 380	$ (3,976)	$ 12,767
Depreciation	1,995	761	133	278	3,167
Amortization	24	1,202	303	—	1,529
Change in the estimated fair value of contingent earn-out consideration	—	90	152	—	242
Loss on disposal of assets	338	—	—	—	338
Net operating income (loss)	$10,957	$ 996	$ (208)	$ (4,254)	$ 7,491

21

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
	(Dollars in thousands)				
Six Months Ended June 30, 2015					
Net revenue	$95,599	$ 22,290	$ 11,260	$ —	$ 129,149
Operating expenses	69,104	17,767	10,966	7,509	105,346
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on disposal of assets	$26,495	$ 4,523	$ 294	$ (7,509)	$ 23,803
Depreciation	3,840	1,558	335	499	6,232
Amortization	46	2,326	271	1	2,644
Change in the estimated fair value of contingent earn-out consideration	—	(211)	22	—	(189)
(Gain) loss on disposal of assets	159	—	(1)	1	159
Net operating income (loss)	$22,450	$ 850	$ (333)	$ (8,010)	$ 14,957
Six Months Ended June 30, 2014					
Net revenue	$95,898	$ 23,631	$ 11,452	$ —	$ 130,981
Operating expenses	69,161	18,120	11,815	9,040	108,136
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on disposal of assets	$26,737	$ 5,511	$ (363)	$ (9,040)	$ 22,845
Depreciation	3,983	1,514	234	565	6,296
Amortization	52	2,480	605	—	3,137
Change in the estimated fair value of contingent earn-out consideration	—	217	152	—	369
Loss on disposal of assets	221	—	—	—	221
Net operating income (loss)	$22,481	$ 1,300	$ (1,354)	$ (9,605)	$ 12,822

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
	(Dollars in thousands)				
As of June 30, 2015					
Inventories, net	$—	$402	$ 456	$ —	$ 858
Property and equipment, net	84,616	7,180	1,830	8,217	101,843
Broadcast licenses	387,367	—	—	—	387,367
Goodwill	3,969	19,795	1,044	8	24,816
Other indefinite-lived intangible assets	—	—	833	—	833
Amortizable intangible assets, net	537	9,148	1,656	2	11,343
As of December 31, 2014					
Inventories, net	$—	$222	$ 350	$ —	$ 572
Property and equipment, net	81,948	7,111	1,941	8,227	99,227
Broadcast licenses	385,726	—	—	—	385,726

Goodwill	3,955	19,677	1,044	8	24,684
Other indefinite-lived intangible assets	—	—	833	—	833
Amortizable intangible assets, net	583	9,884	1,926	2	12,395

The table below presents financial information for each operating segment as of June 30, 2014 with a comparison of the results under the prior composition of our operating segments as compared to the new composition:

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	As Reported Original (1)	As Updated New	As Reported Original (1)	As Updated New
	(Dollars in thousands)			
Net Revenue by Segment:				
Net broadcast revenue	$47,855	$ 49,129	$ 93,431	$ 95,898
Net digital media revenue	14,390	12,319	27,300	23,631
Net publishing revenue	6,392	7,189	10,250	11,452
Total net revenue	$68,637	$ 68,637	$ 130,981	$ 130,981
Operating expenses by segment:				
Broadcast operating expenses	$33,910	$ 35,815	$ 65,099	$ 69,161
Digital media operating expenses	10,063	9,270	19,891	18,120
Publishing operating expenses	6,439	6,809	10,858	11,815
Unallocated corporate expenses	5,458	3,976	12,288	9,040
	$55,870	$ 55,870	$ 108,136	$ 108,136
Net operating income before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and (gain) loss on disposal of assets	$7,491	$ 7,491	$ 12,822	$ 12,822

(1) Includes the reclassification of $11,000 of revenue share commissions to digital media operating expenses from digital media revenue to conform to current presentation.

NOTE 18. SUBSEQUENT EVENTS

On July 1, 2015, we acquired DividendInvestor.com for $1.0 million in cash. DividendInvestor.com is a website offering stock screening tools and dividend information for individual subscribers to obtain dividend information and data.

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

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

GENERAL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included elsewhere in this report. Our Condensed Consolidated Financial Statements are not directly comparable from period to period due to acquisitions and dispositions of selected assets of radio stations and acquisitions of various Internet and publishing businesses. See Note 4 of our Condensed Consolidated Financial Statements for additional information.

Salem Media Group, Inc. ("Salem") is a domestic multi-media company with integrated operations including radio broadcasting, digital media, and publishing. Effective as of February 19, 2015, we changed our name from Salem Communications Corporation to Salem Media Group, Inc. Salem was formed in 1986 as a California corporation and was reincorporated in Delaware in 1999. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. We maintain a website at www.salemmedia.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). *Any information found on our website is not a part of or incorporated by reference into, this or any other report of the company filed with, or furnished to, the SEC.*

OVERVIEW

We have two reportable segments, radio broadcasting and digital media. Digital media (formerly "Internet and e-commerce") became a reportable segment as of the first quarter of 2011 upon the realization of organic and acquisition related revenue growth. Our acquisition of Eagle Publishing on January 10, 2014, including Regnery Publishing, Eagle Financial Publications, Eagle Wellness, Human Events and Red State, resulted in operational changes to our business and a realignment of our operating segments. We now have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing. We changed the composition of our operating segments to reflect management's view of the operating results for each segment.

Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assesses the performance of each operating segment and determines the appropriate allocations of resources to each segment. Our operating segments do not all meet the quantitative thresholds to qualify as reportable segments; however, we have elected to disclose the results of these non-reportable operating segments as we believe this information is useful to readers of our financial statements. 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 have been updated to reflect the new composition of our operating segments. Refer to Note 17 – Segment Data in the notes to our financial statements contained in this report on Form 10-Q for additional information.

Our principal sources of broadcast revenues include:

- the sale of block program time to national and local program producers;
- the sale of advertising time on our radio stations to national and local advertisers;
- the sale of advertising time on our national network;
- the syndication of programming on our national network;
- the sale of banner advertisements on our station websites;
- the sale of digital streaming on our station websites; and
- revenue derived from station events, including ticket sales and sponsorships.

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

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

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

Our principal sources of digital media revenue (formerly Internet and e-commerce revenue) include:

- the sale of Internet banner advertising;
- the sale of digital streaming advertising;
- the support and promotion to stream third-party content on our websites;
- the demand for digital delivery of our newsletters and host materials;
- product sales and royalties for on-air host materials;
- the number of video and graphic downloads; and
- the demand for our wellness products.

Our principal sources of publishing revenue include:

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

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network® ("SRN"), SRN News Network ("SNN"), Salem Music Network ("SMN"), Solid Gospel Network ("SGN") and Salem Media Representatives ("SMR"). SRN, SNN, SMN and SGN 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 11 U.S. cities, specializes in placing national advertising on religious and other commercial radio stations.

Station Formats:

Christian Teaching and Talk. We currently program 42 of our radio stations in our foundational format, Christian Teaching and Talk, which is talk programming emphasizing Christian and family themes. Through this format, a listener can hear Bible teachings and sermons, as well as gain insight to questions related to daily life, such as raising children or religious legal rights in education and in the workplace. This format uses block programming time to offer a learning resource and a source of personal support for listeners. Listeners often contact our programmers to ask questions, obtain materials on a subject matter or receive study guides based on what they have learned on the radio.

Block Programming. We sell blocks of airtime on our Christian Teaching and Talk format stations to a variety of national and local religious and charitable organizations that we believe create compelling radio programs. Historically, more than 95% of these religious and charitable organizations renew their annual programming relationships with us. Based on our historical renewal rates, we believe that block programming provides a steady and consistent source of revenue and cash flows. Our top ten programmers have remained relatively constant and average nearly 25 years on-air. Over the last five years, block-programming revenue has comprised between 40% to 41% of our total net broadcast revenue.

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

News Talk. We currently program 29 of our radio stations in a News Talk format. Our research shows that our News Talk format is highly complementary to our core Christian Teaching and Talk format. As programmed by Salem, both of these formats express conservative views and family values. Our News Talk format also provides for the opportunity to leverage syndicated talk programming produced by our network, SRN.

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

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

Business. We currently program 10 of our radio stations in a business format. Our business format features financial commentators, business talk, and nationally recognized Bloomberg programming. The business format operates similar to our Christian Teaching and Talk format in that it features long-form block programming.

Each of our radio stations has a website specifically designed for that station.

Revenues generated from our radio stations are reported as broadcast revenue in our condensed consolidated financial statements included in Part 1 of this quarterly report on Form 10-Q. Broadcast revenues are impacted by the rates radio stations can charge for programming and advertising time, the level of airtime sold to programmers and advertisers, the number of impressions delivered or downloads made, and the number of events held, including the size of the event and the number of attendees. Block programming rates are based upon our stations' ability to attract audiences that will support the program producers through contributions and purchases of their products. Advertising rates are based upon the demand for advertising time, which in turn is based on our stations and networks' ability to produce results for their advertisers. We market ourselves to advertisers based on the responsiveness of our audiences. We do not subscribe to traditional audience measuring services for most of our radio stations. In select markets, we subscribe to Nielsen Audio, which develops quarterly reports measuring a radio station's audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks has a pre-determined level of time available for block programming and/or advertising, which may vary at different times of the day.

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

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. Additionally, we experience increased demand for advertising during election years by way of political advertisements. Quarterly revenue from the sale of block programming time does not tend to vary significantly because program rates are generally set annually and are recognized on a per program basis.

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

Trade or barter agreements are common in the broadcast industry. Our radio stations utilize trade agreements to exchange advertising time for goods or services in lieu of cash. We enter trade and barter agreements if the goods or services we receive can be used in our business or can be sold under listener purchase programs. We minimize use of trade agreements with our general policy of not preempting paid airtime for trade. In each of the six month periods ending June 30, 2014 and 2015, we sold 97% of our broadcast revenue for cash.

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

Digital Media (formerly "Internet and e-commerce")

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

E-commerce sites include Salem Consumer Products ("SCP"), an e-commerce business that sells books, DVD's and editorial content developed by our on-air personalities and Eagle Wellness and Gene Smart Wellness, online sites offering complementary health advice and sales of nutritional products.

The revenues generated from this segment are reported as digital media revenue in our condensed consolidated financial statements include in Part 1 of this quarterly report on Form 10-Q. Digital media revenues are impacted by the rates our sites can charge for advertising time, the level of advertisements sold, the number of impressions delivered or the number of downloads made, and the number of digital subscriptions sold. Like our broadcasting segment, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. We also experience fluctuations in quarter over quarter comparisons based on the date in which the Easter holiday is observed, as this holiday generates a higher volume of video downloads from our church product sites. Additionally, we experience increased demand for advertising time and placement during election years for political advertisements.

The primary operating expenses incurred in the ownership and operation of our Internet businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) royalties, (v) streaming costs, and (vi) cost of goods sold associated with SCP and Wellness products.

Publishing

On January 10, 2014, we acquired Regnery Publishing which resulted in a major shift in our publishing operating segment. Regnery Publishing is a publisher of conservative books that was founded in 1947. Regnery has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, Michelle Malkin, David Limbaugh, Ed Klein, Laura Ingraham, Mark Steyn and Dinesh D'Souza.

Our publishing operating segment also includes Salem Publishing™ and Xulon Press. Salem Publishing™ produces and distributes numerous Christian and conservative opinion print magazines, including*: Homecoming® The Magazine, YouthWorker Journal,*™ *Singing News®, FaithTalk Magazine,*™ and *Preaching Magazine*™. Through December 2014, we also printed and produced *Townhall Magazine*™. Xulon Press™ is a print-on-demand self-publishing service for Christian authors.

Revenues generated from these entities are reported as publishing revenue in our condensed consolidated financial statements include in Part 1 of this quarterly report on Form 10-Q. Publishing revenue is impacted by the retail price of books and e-books, the number of printed books sold, the number and retail price of e-books sold, the number and rate of print magazine subscriptions sold, the rate and number of pages of advertisements sold in each print magazine, and the number and rate at which self-published books are made. Regnery Publishing revenues can fluctuate from period to period based on our ability to produce books that reach best-seller status. Regnery Publishing revenue also fluctuates with political elections as their content typically generates higher interest levels and demand for publications containing conservative and political based opinions during active election periods.

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

KNOWN TRENDS AND UNCERTAINTIES

Although advertising revenues have stabilized following the decline that began in 2008, broadcast advertising revenue growth remains challenged. We are particularly dependent on broadcast revenues in our Los Angeles and Dallas markets, which generated 10.0% and 8.9%, respectively, of our total net revenue for the six month period ending June 30, 2015. Advertising and subscription revenues from print magazines are negatively impacted by the growing use of other mediums, specifically digital, to deliver the same information. Book sales are contingent upon overall economic conditions and our ability to attract and retain authors. Because digital media is a concentrated growth area for us, decreases in revenue streams from these areas could affect our operating results, financial condition and results of operations. We continue to explore opportunities to cross-promote our brand and our content, including our broadcast markets, digital media, Internet sites, mobile applications, and our printing and publication media.

Key Financial Performance Indicators – SAME STATION DEFINITION

In the discussion of our results of operations below, we compare our broadcast operating results between periods on an as-reported basis, which includes the operating results of all radio stations and networks owned or operated at any time during either period and on a "same-station" basis. Same station operating results include those stations that we own or operate in the same format on the first and last day of each quarter as well as the corresponding quarter of the prior year. We use same station results, a non-GAAP financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. Our presentation of same station results are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Our definition of same station operating results is not necessarily comparable to similarly titled measures reported by other companies.

RESULTS OF OPERATIONS

Three months ended June 30, 2015 compared to the three months ended June 30, 2014

The following factors affected our results of operations and cash flows for the three months ended June 30, 2015 as compared to the same period of the prior year:

Equity

- On June 2, 2015 we announced a quarterly distribution in the amount of $0.0650 per share on Class A and Class B common stock. The 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.

Acquisitions

- On June 4, 2015, we acquired the Gene Smart Wellness e-commerce website for $0.1 million in cash.

- On May 12, 2015, we completed the acquisition of radio station WPGP-AM (formerly WDDZ-AM) in Pittsburg, Pennsylvania, for $1.0 million in cash.

- On May 7, 2015, we completed the acquisition of radio station WDWD-AM in Atlanta, Georgia, for $2.8 million in cash.

- On May 6, 2015, we acquired domain names, mobile applications and code functionality for the Daily Bible Devotion for $1.1 million in cash. We may pay up to an additional $300,000 in contingent earn-out consideration payable over the next two years based upon on the achievement of certain benchmarks.

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

Net Broadcast Revenue

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Broadcast Revenue	$49,129	$49,060	$ (69)	(0.1)%	71.6 %	72.9 %
Same Station Net Broadcast Revenue	$48,960	$48,363	$ (597)	(1.2)%		

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

	Three Months Ended June 30,			
	2014		2015	
	(Dollars in thousands)			
Block Programming				
National	$11,176	22.7 %	$11,396	23.2 %
Local	8,267	16.8 %	8,644	17.6 %
	19,443	39.5 %	20,040	40.8 %
Broadcast Advertising:				
National	3,752	7.6 %	3,719	7.6 %
Local	16,597	33.8 %	16,403	33.4 %
	20,349	41.4 %	20,122	41.0 %
Station Digital	1,274	2.6 %	1,382	2.8 %
Infomercials	1,059	2.2 %	681	1.4 %
Network	3,887	7.9 %	3,465	7.1 %
Other	3,117	6.4 %	3,370	6.9 %
Net Broadcast Revenue	$49,129	100.0%	$49,060	100.0%

Block programming revenue increased $0.6 million due to a higher number of national and local programs featured on our Christian Teaching & Talk and News Talk format stations. The increase in the number of programmers featured on-air also resulted in higher demands for premium time slots and the realization of higher rates.

Advertising revenue, net of agency commissions, declined $0.2 million. Included in this amount is a $0.3 million decline in political advertising, which was $0.4 million for the three months ending June 30, 2014 based upon the then upcoming local and congressional elections, compared to $0.1 million during the same period of the current year. Excluding the impact of political advertisements, net advertising revenue increased $0.1 million due to increases in demand from national advertisers on our CCM format stations.

Digital revenue generated from our radio stations increased $0.1 million based on a higher volume of sales. The increase is attributable to our efforts in promoting the advertising value of our station websites.

Declines in infomercial revenues of $0.4 million reflect our ongoing efforts to feature programming tailored to our listening audience that is consistent with our company values. We have reduced the use of infomercial programs that we believe are not of interest to our listeners.

Network revenue declined $0.4 million due to a decrease of $0.2 million in music network revenue during the three months ending June 30, 2015 as compared to the same period of the prior year, a $0.1 million decline in advertising revenue associated with studio releases and promotions of faith-based movies, and a decline of $0.1 million in talk show revenue due to temporary programming changes due to the illness of the host.

Increases in other revenue includes $0.1 million in income from an FM Translator and HD Channel agreement and $0.1 million from listener purchase programs, a popular on-air promotion that offers our listeners access to special discounts and incentives from local advertisers.

Net Digital Media Revenue

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Digital Media Revenue	$12,319	$11,499	$ (820)	(6.7)%	17.9%	17.1%

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

Three Months Ended June 30,

	2014		**2015**	
	(Dollars in thousands)			
Digital Advertising, Net	$6,327	51.3 %	**$5,999**	**52.2 %**
Digital Streaming	1,068	8.7 %	**1,100**	**9.5 %**
Digital Subscriptions	1,486	12.1 %	**1,331**	**11.6 %**
Digital Downloads	2,421	19.6 %	**2,134**	**18.5 %**
e-commerce	809	6.6 %	**869**	**7.6 %**
Other	208	1.7 %	**66**	**0.6 %**
Net Digital Media Revenue	$12,319	100.0 %	**$11,499**	**100.0 %**

Declines in digital advertising revenue, net of agency commissions, of $0.3 million reflect the impact of political revenues on the three month period ending June 30, 2014 and the then upcoming local and congressional elections. The non-political season also impacts our page views as readers are likely to view more pages during election periods. Our page views were also impacted by changes in the Facebook newsfeed algorithm that makes it more difficult to drive traffic from Facebook to our websites. Total page views from all of our websites were down 9% from the same period of the prior year including an 11% decline in page views from our conservative content sites. The reduction in page views results in a decline in ad revenue based on volume.

Digital streaming revenue was consistent with the prior year both in sales volume and in rates.

Declines in digital subscription revenue of $0.2 million reflect lower distribution levels from a 23% decline in the number of new subscriptions sold. The sale of new subscriptions was impacted by a rebranding effort that was underway during the first half of 2015. The decline was partially offset by a 9% increase in the number of renewals.

Digital download revenue decreased $0.3 million from a reduction in the number of downloads from our Church Products division websites, including a $0.2 million decline in mini-movie downloads on our WorshipHouseMedia.com website. The decline in downloads of these third-party produced mini-movies are common throughout the industry as users become more adept at creating their own content. We believe that our sermon content is unique and valuable and will continue to positively impact revenue growth, particularly during Christian holiday periods.

E-commerce revenue increased $0.1 million based on a higher volume of sales of Eagle Wellness products that we believe to be directly attributable to our cross-promotions and marketing efforts on our integrated media platform.

Net Publishing Revenue

Three Months Ended June 30,					
2014	2015	Change $	Change %	2014	2015

	(Dollars in thousands)				% of Total Net Revenue	
Net Publishing Revenue	$7,189	$6,734	$ (455)	(6.3)%	10.5 %	10.0 %

	Three Months Ended June 30,			
	2014		2015	
	(Dollars in thousands)			
Book Sales	$5,657	78.7 %	$4,511	67.0 %
Estimated Sales Returns & Allowances	(1,859)	(25.8)%	(1,369)	(20.3)%
e-Book Sales	545	7.6 %	802	11.9 %
Self-Publishing Fees	1,412	19.6 %	1,477	21.9 %
Print Magazine Subscriptions	582	8.1 %	490	7.3 %
Print Magazine Advertisements	539	7.5 %	448	6.6 %
Other	313	4.3 %	375	5.6 %
Net Publishing Revenue	$7,189	100.0%	$6,734	100.0%

Consolidated book sale revenues decreased $1.2 million, including a $1.1 million decline in sales volume from Regnery Publishing. The decline reflects the number of titles on the New York Times bestseller list, which was one title during the three months ending June 30, 2015 compared to two titles during the same period of the prior year. The estimated sales returns and allowances also declined $0.5 million based on the lower volume of print book sales. Xulon Press book sales were consistent at $1.0 million for each of the three month periods ended June 30, 2015 and 2014.

E-Book sales from Regnery Publishing increased $0.3 million from increases in the number of new publications available, which totaled four publications during the three month period ending June 30, 2015 compared to one publication during the same period of the prior year.

Xulon Press self-publishing fees increased $0.1 million from an increase in the number of authors utilizing the services with no change in rates. We believe that our ability to cross-promote Xulon's self-publishing services to authors that are not published through Regnery will provide ongoing growth potential.

Print magazine revenue continues to decline with a $0.1 million drop in subscription revenue and a corresponding $0.1 million decline in advertising revenues based on rates consistent with the lower distribution levels. As of December 2014, we discontinued printing and distributing Townhall Magazine, the content of which is currently only available online. We continue to explore cost reductions in this segment to offset the eroding revenue base.

Broadcast Operating Expenses

	Three Months Ended June 30,			
	2014	2015	2014	2015

			Change $	Change %		
	(Dollars in thousands)				% of Total Net Revenue	
Broadcast Operating Expenses	$35,815	$35,187	$(628)	(1.8)%	52.2%	52.3%
Same Station Broadcast Operating Expenses	$35,655	$34,544	$(1,111)	(3.1)%		

Broadcast operating expenses declined $0.6 million due to reductions in discretionary spending including $0.6 million in advertising and promotions, $0.2 million in travel and entertainment, $0.1 million in music and license fees and $0.1 million professional services. We also realized savings of $0.1 million attributable to utility savings and office supply expenses. Our costs saving efforts were offset by a $0.6 million increase in employee benefit costs associated with group health insurance premiums and a $0.1 million increase in production and programming costs. On a same-station basis, the decrease in broadcast operating expenses reflects these same items net of the impact of start-up costs associated with format changes and station launches.

Digital Media Operating Expenses

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Digital Media Operating Expenses	$9,270	$8,767	$ (503)	(5.4)%	13.5%	13.0%

Across all digital platforms we incurred lower variable costs consistent with lower revenues. Savings in variable operating costs include a $0.2 million decline in royalties, a $0.1 million decline in professional services and a $0.1 million decline in streaming and hosting expenses. Personnel-related costs were flat with $0.1 million of savings from sales commissions offset by an increase in employee benefit costs from higher group health insurance premiums.

Publishing Operating Expenses

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Publishing Operating Expenses	$6,809	$6,469	$ (340)	(5.0)%	9.9%	9.6 %

Publishing operating expenses include cost of goods sold associated with Regnery Publishing of $0.5 million for the three months ending June 30, 2015 compared to $0.7 million for the same period of the prior year. The decline in the costs of goods sold of $0.2 million is consistent with the decline in revenue and there are no significant changes to our margins. Based on the lower unit sales from Regnery Publishing, we also generated savings from other variable costs, including $0.1 million in royalties, which were offset by a $0.2 million increase in advertising and promotion costs.

Operating expenses associated with our print magazines declined $0.2 million, including $0.1 million in printing and mailing costs and $0.1 million personnel-related costs, due to the discontinuation of production for Townhall Magazine and lower levels of distribution for all other publications due to declines in the number of subscribers.

Xulon Press operating expenses were consistent with those of the prior year.

Unallocated Corporate Expenses

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Unallocated Corporate Expenses	$3,976	$3,518	$(458)	(11.5)%	5.8%	5.2%

Unallocated corporate expenses include shared services, such as accounting and finance, human resources, legal, tax and treasury that are not directly attributable to any one of our operating segments. Decreases in these costs over the same period of the prior year include a $0.2 million decline in personnel-related costs net of higher group health insurance premiums of approximately $57,000, a $0.1 million decline in non-cash stock based compensation expense and a $0.1 million decrease in acquisition-related costs. We continue to seek cost effective ways to reduce overhead operating costs and expenses.

Depreciation Expense

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Depreciation Expense	$3,167	$3,060	$(107)	(3.4)%	4.6%	4.5%

Depreciation expenses are consistent with those of the same period of the prior year.

Amortization Expense

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Amortization Expense	$1,529	$1,315	$(214)	(14.0)%	2.2%	2.0%

The decrease in amortization expense reflects the higher acquisition volume in early 2014, and our acquisition of WorshipHouseMedia..com in 2011 that included intangibles such as advertising agreements, customer lists and domain names, with estimated useful lives ranging from one to five years that were fully depreciated at or near the three month period ending June 30, 2015.

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

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Change in the estimated fair value of contingent earn-out consideration	$242	$(307)	$(549)	(226.9)%	0.4%	(0.5)%

We recorded a net increase of $0.1 million in the fair value of the contingent earn-out consideration associated with Twitchy.com of which a decrease of $ 0.2 million is reflected in our results of operations for the three months ending June 30, 2015. The change reflects actual page views for the current year that are below those estimated at the time of our projections. We will continue to review our estimates over the remaining 0.5 years earn-out period.

We recorded net increases of $0.4 million in the fair value of the contingent earn-out consideration associated with Eagle entities of which a decrease of $63,000 is reflected in our results of operations for the three months ending June 30, 2015. The net increase reflects actual revenues earned by Eagle entities in excess of those estimated at the time of our projections. We will continue to review our estimates over the remaining earn-out period of 1.5 years.

Any changes in the estimated fair value of the contingent earn-out consideration, up to the contracted amount, as applicable, will be reflected in our results of operations in future periods as 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.

Loss on the Sale or Disposal of Assets

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Loss on the sale or disposal of assets	$338	$ 30	$ (308)	(91.1)%	0.5 %	—%

31

The net loss on disposal of assets for the three months ended June 30, 2015 represents various fixed asset and equipment disposals. The net loss on the sale or disposal of assets for the same period of the prior year includes $0.2 million loss associated with the write-off of a receivable from a prior station sale, a $0.1 million loss associated with the relocation of our office and studio facility in our San Francisco, California market, and various other insignificant fixed asset and equipment disposals.

Other Income (Expense)

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Interest income	$26	$2	$(24)	(92.3)%	— %	— %
Interest expense	(4,068)	(3,874)	194	(4.8)%	(5.9)%	(5.8)%
Change in the fair value of interest rate swap	(1,373)	444	1,817	(132.3)%	(2.0)%	0.7 %
Net miscellaneous income and (expenses)	14	—	(14)	(100.0)%	— %	— %

Interest income represents earnings on excess cash and interest due under promissory notes. The $24,000 decline is due to a decrease in the balances outstanding on promissory notes during the three months ending June 30, 2015 as compared to the same period of the prior year.

The decrease in interest expense of $0.2 million includes a $0.1 million decline in interest payments associated with our interest rate swap, a $36,000 decline in interest payments on the remaining principal balance outstanding on our Term Loan B, and a $21,000 decline due to increases in capitalized interest for self-constructed assets.

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

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

Provision for Income Taxes

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Provision for income taxes	$827	$2,303	$1,476	178.5 %	1.2%	3.4 %

In accordance with FASB ASC Topic 740, *Income Taxes*, our tax provision for income taxes was $2.3 million for the three months ended June 30, 2015 compared to $0.1 million for the same period of the prior year. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was 39.5% for the three months ended June 30, 2015 compared to 39.6% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Net Income (Loss)

	Three Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Income (loss)	$1,263	$3,523	$2,260	178.9 %	1.8%	5.2 %

We recognized net income of $3.5 million for the three months ending June 30, 2015 compared to $1.3 million in the same period of the prior year. The change reflects the $1.8 million increase in operating income based on lower operating expenses, a $1.8 million decrease in the charge associated with the change in fair value of our interest rate swap agreement and a $0.2 million decrease in interest expense offset a $1.5 million increase in our tax provision.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014

The following factors affected our results of operations and cash flows for the six months ended June 30, 2015 as compared to the same period of the prior year:

Financing

- 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”). 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 payment.

Equity

- On June 2, 2015 we announced a quarterly distribution in the amount of $0.0650 per share on Class A and Class B common stock. The 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 distribution in the amount of $0.0650 per share on Class A and Class B common stock. The quarterly 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 June 4, 2015, we acquired the Gene Smart Wellness e-commerce website for $0.1 million in cash.

- On May 12, 2015, we completed the acquisition of radio station WPGP-AM (formerly WDDZ-AM) in Pittsburg, Pennsylvania, for $1.0 million in cash.

- On May 7, 2015, we completed the acquisition of radio station WDWD-AM in Atlanta, Georgia, for $2.8 million in cash.

.

On May 6, 2015, we acquired domain names, mobile applications and code functionality for the Daily Bible Devotion for $1.1 million in cash. We may pay up to an additional $300,000 in contingent earn-out consideration payable over the next two years based upon on the achievement of certain benchmarks.

- 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 completed the acquisition of radio station WDYZ-AM in Orlando, Florida for $1.3 million in cash.

- On February 6, 2015, we acquired Bryan Perry Newsletters Cash Machine and Premium Income financial publications for $0.2 million payable in future contingent earn-out installments based on subscription revenue.

Net Broadcast Revenue

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Broadcast Revenue	$95,898	$95,599	$(299)	(0.3)%	73.2%	74.0%
Same Station Net Broadcast Revenue	$95,680	$94,331	$(1,349)	(1.4)%		

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

	Six Months Ended June 30,			
	2014		2015	
	(Dollars in thousands)			
Block Programming				
National	$22,334	23.3%	$22,445	23.5%
Local	16,646	17.4%	17,384	18.2%
	38,980	40.7%	39,829	41.7%
Broadcast Advertising:				
National	7,436	7.7%	7,211	7.5%
Local	31,547	32.9%	31,159	32.6%
	38,983	40.6%	38,370	40.1%
Station Digital	2,467	2.6%	2,706	2.8%
Infomercials	2,127	2.2%	1,394	1.5%
Network	7,900	8.2%	7,118	7.4%
Other	5,441	5.7%	6,182	6.5%
Net Broadcast Revenue	$95,898	100.0%	$95,599	100.0%

33

Block programming revenue increased $0.9 million due to a higher number of national and local programs featured on our Christian Teaching & Talk and News Talk format stations. The increase in the number of programmers featured on-air also resulted in higher demands for premium time slots and the realization of higher rates.

Advertising revenue, net of agency commissions, declined $0.6 million. Included in this amount is a $0.7 million decline in political advertising, which was $0.9 million for the six months ending June 30, 2014 based on the then upcoming local and congressional elections, compared to $0.2 million for the same period of the current year. Excluding the impact of political advertisements, net advertising revenue increased $0.1 million due to increases in demand from national advertisers in our larger markets that also resulted in the realization of higher rates.

Digital revenues generated from our radio stations increased $0.2 million based on a higher volume of sales. The increase is attributable to our efforts in promoting the advertising value of our station websites.

Declines in infomercial revenues of $0.7 million reflect our ongoing efforts to develop programming that is tailored to our listening audience and consistent with our company values. We have reduced the use of infomercial programs that we believe are not of interest to our listeners.

Network revenue declined $0.8 million due to a decrease of $0.4 million in national spot sales and music network revenues during the six months ending June 30, 2015, as compared to the same period of the prior year and a $0.4 million decline in talk show revenue of which $0.3 million was due to temporary programming changes due to the illness of the host.

Increases in other revenue includes a $0.5 million increase from listener purchase programs, a popular on-air promotion that offers our listeners access to special discounts and incentives from local advertisers and a $0.2 million increase in income from an FM Translator and HD Channel agreement.

Net Digital Media Revenue

Six Months Ended June 30,					
2014	2015	Change $	Change %	2014	2015
(Dollars in thousands)				% of Total Net Revenue	

Net Digital Media Revenue	$23,631	$22,290	$(1,341)	(5.7)%	18.0%	17.3%

	Six Months Ended June 30,			
	2014		2015	
	(Dollars in thousands)			
Digital Advertising, Net	$12,524	53.0 %	$11,599	52.0 %
Digital Streaming	2,130	9.0 %	2,179	9.8 %
Digital Subscriptions	2,921	12.4 %	2,634	11.8 %
Digital Downloads	4,164	17.6 %	4,024	18.0 %
e-commerce	1,618	6.8 %	1,752	7.9 %
Other	274	1.2 %	102	0.5 %
Net Digital Media Revenue	$23,631	100.0%	$22,290	100.0%

Declines in digital advertising revenue, net of agency commissions, of $0.9 million reflect the impact of political revenues on the six month period ending June 30, 2014 and the then upcoming local and congressional elections. The lack of political activity also impacts page views as readers are likely to view more pages during election periods. Our page views were also impacted by changes in the Facebook newsfeed algorithm that makes it more difficult to drive traffic from Facebook to our websites. Total page views from all of our websites were down 5% from the same period of the prior year including an 8% decline in page views from our conservative content sites. The reduction in page views results in a decline in ad revenue based on volume.

Digital streaming revenue was consistent with the prior year both in sales volume and in rates.

Declines in digital subscription revenue of $0.3 million reflect lower distribution levels from a 30% reduction in the number of new subscriptions. The sale of new subscriptions was impacted by a rebranding effort that was underway during the first half of 2015. The decline was partially offset by a 15% increase in the number of renewals.

Digital download revenue decreased $0.1 million from a reduction in the number of downloads from our Church Products division websites, including a $0.2 million decline in mini-movie downloads on our WorshipHouseMedia.com website offset by $0.1 million in fees generated from ChurchStaffing.com and ChritianJobs.com. The decline in downloads of these third-party produced mini-movies are common throughout the industry as users become more adept at creating their own content. We believe that our sermon content is unique and valuable and will continue to positively impact revenue growth, particularly during Christian holiday periods.

E-commerce revenue increased $0.1 million including a $0.2 million increase based on a higher volume of sales of Eagle Wellness products that we believe to be directly attributable to our cross-promotion and marketing efforts on our integrated media platform. This was partially offset with a reduction of $0.1 million based on the number of products sold through our Salem Consumer Products division.

Net Publishing Revenue

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Publishing Revenue	$11,452	$11,260	$(192)	(1.7)%	8.7%	8.7%

	Six Months Ended June 30,			
	2014		2015	
	(Dollars in thousands)			
Book Sales	$7,956	69.5%	$6,849	60.8%
Estimated Sales Returns & Allowances	(2,358)	(20.6)%	(1,944)	(17.2)%
e-Book Sales	754	6.6%	1,222	10.9%
Self-Publishing Fees	2,581	22.5%	2,768	24.6%
Print Magazine Subscriptions	1,039	9.1%	849	7.5%
Print Magazine Advertisements	970	8.5%	849	7.5%
Other	510	4.4%	667	5.9%
Net Publishing Revenue	$11,452	100.0%	$11,260	100.0%

Consolidated book sale revenues decreased $1.1 million, including a $1.0 million decline in sales from Regnery Publishing. The decline is directly attributable to the number of titles on the New York Times bestseller list and the composite mix of titles available in each of the six month periods. The decrease in estimated sales returns and allowances for Regnery Publishing of $0.4 million is based on the lower volume of print book sales during the six month period ending June 30, 2015 as compared to the same period of the prior year. Xulon Press book sales were consistent at $1.9 million for each of the six month periods ended June 30, 2015 and 2014.

E-Book sales from Regnery Publishing increased $0.5 million from increases in the number of new publications available, which totaled four publications during the six month period ending June 30, 2015 compared to one publication during the same period of the prior year.

Xulon Press self-publishing fees increased $0.2 million from an increase in the number of authors utilizing the services with no change in rates compared to the same period of the prior year. We believe that our ability to cross-promote Xulon's self-publishing services to authors that are not published through Regnery will provide ongoing growth potential.

Print magazine revenue continues to decline with a $0.2 million drop in subscription revenue and a corresponding $0.1 million decline in advertising revenues based on rates consistent with the lower distribution levels. As of December 2014, we discontinued printing and distributing Townhall Magazine, the content of which is currently only available online. We continue to explore cost reductions in this segment to offset the eroding revenue base.

Broadcast Operating Expenses

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Broadcast Operating Expenses	$69,161	$69,104	$(57)	(0.1)%	52.8%	53.5%
Same Station Broadcast Operating Expenses	$68,875	$67,868	$(1,007)	(1.5)%		

Broadcast operating expenses declined slightly due to reductions in discretionary spending including $0.3 million in advertising and promotions, $0.3 million in travel and entertainment and $0.2 million in professional services. We also realized facility-related savings of $0.2 million attributable to utility savings and office supply expenses. Our costs saving efforts were offset by a $1.1 million increase in employee benefit costs including group health insurance premiums of $0.1 million and a $0.2 million increase in production and programming costs. On a same-station basis, the decrease in broadcast operating expenses reflects these same items net of the impact of start-up costs associated with format changes and station launches.

Digital Media Operating Expenses

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Digital Media Operating Expenses	$18,120	$17,767	$(353)	(1.9)%	13.8%	13.8%

Across all digital platforms we incurred lower variable costs consistent with lower revenues. Savings in variable operating costs include a $0.2 million decline in royalties, a $0.2 million decline in professional services, and a $0.1 million decline in streaming and hosting expenses offset by a $0.1 million increase in advertising expenses.

Publishing Operating Expenses

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Publishing Operating Expenses	$11,815	$10,966	$(849)	(7.2)%	9.0%	8.5%

Publishing operating expenses include cost of goods sold associated with Regnery Publishing of $0.8 million for the six months ending June 30, 2015 compared to $0.9 million for the same period of the prior year. The decline in the costs of goods sold of $0.1 million is consistent with the decline in revenue and there are no significant changes to our margins. Based on the lower unit sales from Regnery Publishing, we also generated savings from other variable costs, including $0.4 million in royalties and $0.1 million in fulfillment costs.

Operating expenses associated with our print magazines declined $0.4 million, including $0.1 million in printing and mailing costs, $0.1 million in promotional costs, $0.1 million in personnel-related costs, and overall declines in expenses from the discontinuation of production for Townhall Magazine.

Operating expense for Xulon Press reflect a $0.1 million increase in advertising costs but were otherwise consistent with those of the same period of the prior year.

Unallocated Corporate Expenses

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Unallocated Corporate Expenses	$9,040	$7,509	$(1,531)	(16.9)%	6.9%	5.8%

Unallocated corporate expenses include shared services, such as accounting and finance, human resources, legal, tax and treasury that are not directly attributable to any one of our operating segments. Decreases in these costs over the same period of the prior year include a $0.6 million decline in personnel-related costs, a $0.3 million decline in non-cash stock based compensation expense, a $0.2 million decline in travel and entertainment expenses, a $0.2 million decline in professional-related services fees, a $0.1 million decline in facility-related expenses and a $0.1 million decrease in acquisition-related costs. We continue to seek cost effective ways to reduce our overhead operating costs and expenses.

Depreciation Expense

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Depreciation Expense	$6,296	$6,232	$ (64)	(1.0)%	4.8%	4.8 %

Depreciation expenses are consistent with those of the same period of the prior year.

Amortization Expense

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Amortization Expense	$3,137	$2,644	$ (493)	(15.7)%	2.4%	2.0 %

The decrease in amortization expense reflects the higher acquisition volume in early 2014 and our acquisition of WorshipHouseMedia.com in 2011 that included intangibles such as advertising agreements, customer lists and domain names, with estimated useful lives ranging from one to five years that were fully depreciated at or near the six month period ending June 30, 2015.

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

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Change in the estimated fair value of contingent earn-out consideration	$369	$(189)	$(558)	(151.2)%	0.3%	(0.1)%

We recorded a net increase of $0.1 million in the fair value of the contingent earn-out consideration associated with Twitchy.com of which a decrease of $ 0.2 million is reflected in our results of operations for the six months ending June 30, 2015. The change reflects actual page views for the current year that are below those estimated at the time of our projections. We will continue to review our estimates over the remaining 0.5 years earn-out period.

We recorded net increases of $0.4 million in the fair value of the contingent earn-out consideration associated with Eagle entities of which $22,000 is reflected in our results of operations for the six months ending June 30, 2015. The net increase reflects actual revenues earned by Eagle entities in excess of those estimated at the time of our projections. We will continue to review our estimates over the remaining earn-out period of 1.5 years.

Any changes in the estimated fair value of the contingent earn-out consideration, up to the contracted amount, as applicable, will be reflected in our results of operations in future periods as 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.

Loss on the Sale or Disposal of Assets

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Loss on the sale or disposal of assets	$221	$159	$ (62)	(28.1)%	0.2%	0.1 %

The net loss on disposal of assets for the six months ended June 30, 2015 includes a $0.2 million charge associated with the relocation of our office and studio in our Seattle, Washington market offset by proceeds from various fixed asset and equipment disposals. The net loss on the sale or disposal of assets for the same period of the prior year includes $0.2 million loss associated with the write-off of a receivable from a prior station sale, a $0.1 million loss associated with the relocation of our office and studio facility in our San Francisco, California market offset by a $0.1 million insurance proceeds from a damage claim associated with one of our markets and various other insignificant fixed asset and equipment disposals.

Other Income (Expense)

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Interest income	$41	$3	$(38)	(92.7)%	— %	— %
Interest expense	(7,847)	(7,678)	169	(2.2)%	(6.0)%	(5.9)%
Change in the fair value of interest rate swap	(2,469)	(976)	1,493	(60.5)%	(1.9)%	(0.8)%
Loss on early retirement of long-term debt	(8)	(41)	(33)	412.5 %	— %	— %
Net miscellaneous income and (expenses)	80	7	(73)	(91.3)%	0.1 %	— %

Interest income represents earnings on excess cash and interest due under promissory notes. The $38,000 decline is due to a decrease in the balances outstanding on promissory notes at June 30, 2015 as compared to the same period of the prior year.

The increase in interest expense of $0.2 million includes a $0.3 million increase in interest payments associated with our interest rate swap offset by a decrease of $0.2 million of interest on the remaining principal balance outstanding on our Term Loan B.

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

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

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

Provision for Income Taxes

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Provision for income taxes	$925	$2,454	$1,529	165.3 %	0.7%	1.9 %

In accordance with FASB ASC Topic 740, *Income Taxes*, our tax provision for income taxes was $2.5 million for the three months ended June 30, 2015 compared to $0.1 million for the same period of the prior year. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was 39.1% for the six months ended June 30, 2015 compared to 35.3% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 35.0% due to the effect of state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Net Income (Loss)

	Six Months Ended June 30,					
	2014	2015	Change $	Change %	2014	2015
	(Dollars in thousands)				% of Total Net Revenue	
Net Income (loss)	$1,694	$3,818	$2,124	125.4 %	1.3%	3.0 %

We recognized net income of $3.8 million for the six months ending June 30, 2015 compared to $1.7 million in the same period of the prior year. The change reflects the $2.2 million increase in operating income based on lower operating expenses and $1.5 million decrease in the charge associated with the change in the fair value of our swap agreement offset the $1.6 million increase in our tax provision.

NON-GAAP FINANCIAL MEASURES

Regulation G and Item 10(e) of Regulation S-K define and prescribe the conditions under which certain non-GAAP financial information may be presented. We closely monitor EBITDA, Adjusted EBITDA, Station Operating Income (“SOI”), Digital media operating income, publishing operating income, and free cash flow, all of which are non-GAAP financial measures. We believe that these non-GAAP financial measures provide useful information about our core operating results and thus are appropriate to enhance the overall understanding of our financial performance. These non-GAAP measures are intended to provide management and investors a more complete understanding of our underlying operational results, trends and performance. Management uses these non-GAAP financial measures to evaluate financial results, develop budgets, manage expenditures, and determine employee compensation. Our presentation of this additional information should not be considered as a substitute for or superior to the most directly comparable financial measures as reported in accordance with GAAP.

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

Same station operating results include those stations that we own or operate in the same format on the first and last day of each quarter as well as the corresponding quarter of the prior year. Same station results for a full calendar year are calculated as the sum of the same station-results for each of the four quarters of that year. Same station results for our annual report are calculated as the sum of the same station-results for each of the four quarters of that year. We use same station results, a non-GAAP financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. Our presentation of same station results are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Our definition of same station operating results is not necessarily comparable to similarly titled measures reported by other companies.

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

We define EBITDA as net income before interest, taxes, depreciation, amortization and change in fair value of interest rate swaps. We define Adjusted EBITDA as EBITDA before gains or losses on the disposal of assets, changes in the estimated fair value of contingent earn-out consideration and non-cash compensation expense. EBITDA and Adjusted EBITDA are commonly used by the broadcast and media industry as important measures of performance and are used by investors and analysts who report on the industry to provide meaningful comparisons between broadcasters. EBITDA and Adjusted EBITDA are not measures of liquidity or of performance in accordance with GAAP, and should be viewed as a supplement to and not a substitute for or superior to our results of operations and financial condition presented in accordance with GAAP. Our definitions of EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.

We define free cash flow as Adjusted EBITDA less cash paid for capital expenditures, less cash paid for income taxes, and less cash paid for interest. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by our operations after cash paid for capital expenditures, income taxes and interest. A limitation of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in our cash balance for the period. We use free cash flow, a non-GAAP financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. Our presentation of free cash flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Our definition of free cash flow is not necessarily comparable to similarly titled measures reported by other companies.

The table below shows select non-GAAP performance indicators that we believe provides useful information to management and investors. We use these non-GAAP measures to evaluate financial results, develop budgets, manage expenditures, and determine employee compensation. Our presentation of this additional information is not to be considered as a substitute for or superior to net income or loss as reported in accordance with GAAP.

Non-GAAP Financial Measures	**Three Months Ended June 30,** 2014	**2015**	**Six Months Ended June 30,** 2014	**2015**
	(Dollars in thousands)		*(Dollars in thousands)*	
Station Operating Income	$ 13,314	**$ 13,873**	$ 26,737	**$ 26,495**
Digital Media Operating Income	3,049	**2,732**	5,511	**4,523**
Publishing Operating Income (loss)	380	**265**	(363)	**294**
EBIDTA	12,201	**13,629**	22,327	**23,799**
Adjusted EBITDA	13,110	**13,508**	23,857	**24,297**
Free Cash Flow	6,503	**7,470**	10,957	**12,703**

The following table provides a reconciliation of these non-GAAP financial measures to net income as presented in our Condensed Consolidated Financial Statements for the three and six months ended June 30, 2014 and 2015:

	Three Months Ended June 30, 2014	2015	Six Months Ended June 30, 2014	2015
	(Dollars in thousands) (unaudited)			
Reconciliation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss) to Net Income				
Station Operating Income	$13,314	$13,873	$26,737	$26,495
Digital Media Operating Income	3,049	2,732	5,511	4,523
Publishing Operating Income (loss)	380	265	(363)	294
Less unallocated corporate expenses	(3,976)	(3,518)	(9,040)	(7,509)
Less change in the estimated fair value of contingent earn-out consideration	(242)	307	(369)	189
Less depreciation and amortization	(4,696)	(4,375)	(9,433)	(8,876)
Less loss on disposal of assets	(338)	(30)	(221)	(159)
Net operating income	$7,491	$9,254	$12,822	$14,957
Plus interest income	26	2	41	3
Less interest expense	(4,068)	(3,874)	(7,847)	(7,678)
Less change in fair value of interest rate swaps	(1,373)	444	(2,469)	(976)
Less loss on early retirement of long-term debt	—	—	(8)	(41)
Less net miscellaneous income and expenses	14	—	80	7
Provision for income taxes	(827)	(2,303)	(925)	(2,454)
Net Income	$1,263	$3,523	$1,694	$3,818

Reconciliation of Adjusted EBITDA to EBITDA to Net Income				
Adjusted EBITDA	$13,110	$13,508	$23,857	$24,297
Less non-cash stock-based compensation expense	(329)	(156)	(932)	(487)
Less loss on early retirement of long-term debt	—	—	(8)	(41)
Less change in the estimated fair value of contingent earn-out consideration	(242)	307	(369)	189
Less loss on disposal of assets	(338)	(30)	(221)	(159)
EBITDA	12,201	13,629	22,327	23,799
Plus interest income	26	2	41	3
Less depreciation and amortization	(4,696)	(4,375)	(9,433)	(8,876)
Less interest expense	(4,068)	(3,874)	(7,847)	(7,678)
Less change in fair value of interest rate swap	(1,373)	444	(2,469)	(976)
Less provision for income taxes	(827)	(2,303)	(925)	(2,454)
Net Income	$1,263	$3,523	$1,694	$3,818

Reconciliation of Adjusted EBITDA to Free Cash Flow				
Adjusted EBITDA	$13,110	$13,508	$23,857	$24,297
Less cash paid for interest	(3,332)	(3,559)	(6,682)	(7,071)
Less cash paid for taxes	(230)	(312)	(238)	(316)
Less cash paid for capital expenditures, net (1)	(3,045)	(2,167)	(5,980)	(4,207)
Free Cash Flow	$6,503	$7,470	$10,957	$12,703

(1) Net cash paid for capital expenditures reflects actual cash payments net of cash reimbursements received under tenant improvement allowances and net of property and equipment acquired in trade transactions.

39

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Significant areas for which management uses estimates include: (1) asset impairments, including broadcasting licenses, goodwill and other indefinite-lived intangible assets; (2) income tax valuation allowances; (3) uncertain tax positions; (4) allowance for doubtful accounts; (5) inventory reserves; (6) reserves for royalty advances; (7) self-insurance reserves; (8) fair value of equity awards; (9) estimated lives for tangible and intangible assets; (10) fair value measurements; (11) contingency reserves; (12) probabilities associated with the potential for contingent earn-out consideration; and (13) sales returns and allowances. These estimates require the use of judgment as future events and the effect of these events cannot be predicted with certainty. The estimates will change as new events occur, as more experience is acquired and as more information is obtained. We evaluate and update our assumptions and estimates on an ongoing basis and we may consult outside experts to assist as considered necessary.

We believe the following accounting policies and the related judgments and estimates are critical accounting policies that affect the preparation of our Condensed Consolidated Financial Statements.

Accounting for acquisitions and upgrades of radio station and network assets

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. It is our general policy to retain a third-party appraiser to value radio stations, networks, Internet businesses or publishing properties. The purchase price allocations that assign a fair value to broadcast licenses and other assets are subjective by their nature and require careful consideration and judgment. We believe that the allocations represent appropriate estimates of the fair value of the assets acquired. As part of the valuation and appraisal process, third-party appraisers prepare reports that assign values to the various asset categories in our financial statements. Management reviews these reports and determines the reasonableness of the assigned values used to record the acquisition of these properties upon the close of the transaction.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses. Our policy is to capitalize costs incurred up to the point where the project is complete, at which time we transfer the costs to the appropriate fixed asset and/or intangible asset categories. When the completion of a project is contingent upon FCC or other regulatory approval, we assess the probable future benefit of the asset at the time that it is recorded and monitor it through the FCC or other regulatory approval process. In the event the required approval is not considered probable or the project is abandoned, we write-off the capitalized costs of the project.

We estimate the economic life of each asset acquired to determine the period of time in which the asset should be depreciated or amortized. A considerable amount of judgment is required in assessing the economic life of each asset. If the financial condition of the assets were to deteriorate the resulting change in life or impairment of the asset could cause a material impact and volatility in our operating results.

Accounting for contingent consideration

Our acquisitions may include contingent consideration as part of the purchase price. The fair value of the contingent consideration is estimated as of the acquisition date based on the present value of the 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 consideration include managements assumptions about the likelihood of payment based on the established benchmarks and discount rates based on internal rate of return analysis. The fair value measurement includes inputs that are Level 3 measurement as discussed in Note 14 to our condensed consolidated financial statements. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent 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.

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.

Revenue recognition for multiple-deliverables

We may enter bundled advertising agreements that include spot advertisements on our radio stations, Internet banner placements, print magazine advertisements and booth space at specific 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 used for each deliverable is based on vendor specific objective evidence if available or estimated selling price if vendor specific objective evidence is not available. Objective evidence of fair value includes the price charged for each element when it is sold separately. The estimated selling price is the price that we would transact if the deliverable was sold regularly on a standalone basis. Arrangement consideration is allocated at the inception of each arrangement 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.

Barter transactions

We may provide advertising time in exchange for certain products, supplies and services. The terms of the exchanges generally permit for the preemption of such broadcast time in favor of advertisers who purchase time on regular terms. We include the value of such exchanges in both net broadcasting revenues and broadcast operating expenses. The value recorded for barter revenues is based upon management's estimate of the fair value of the products, supplies and services received.

Advertising time that our radio stations exchange for goods and or services is recorded as barter revenue when the advertisement is broadcast at an amount equal to our estimate fair value of what was received. The value of the goods or services received in such barter transactions is charged to expense as used. Barter advertising revenue included in broadcast revenue for the three and six months ended June 30, 2015 was approximately $1.4 million and $3.1 million, respectively, and $1.7 million and $3.3 million, respectively, for the same period of the prior year. Barter expenses included in broadcast operating expense for the three and six months ended June 30, 2015 was approximately $1.3 million and $2.9 million, respectively, and $2.0 million and $3.4 million, respectively, for the same period of the prior year.

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.

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. 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 its market.

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. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was $0.6 million and $0.9 million at June 30, 2015 and December 31, 2014, respectively.

Royalty advances to authors

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.

Inventory

Our inventory on hand consists of 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 Eagle Wellness, respectively. We utilized this historical data associated with sales returns and allowances and royalty reserves, as well as overall economic conditions and product demand, to estimate the fair value of inventory on hand. A provision has been established to expense the balance of unsold inventory for which we believe the cost to be unrecoverable.

Accounting for 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 that 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.

For our radio stations, we define a cluster as a group of radio stations operating in the same geographic market, sharing the same building, 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. General Managers are compensated based on the results of their cluster as a whole, not the results of any individual radio stations. We have determined that a radio market qualifies for a discontinued operation when management, having the authority to approve the action, commits to a plan to sell the asset (disposal group), the sale is probable, and the sale will result in the exit of a particular geographic market.

We elected early adoption of the FASB guidance for discontinued operations issued in April 2014. As of December 2014, we decided that we would no longer produce or distribute TownHall.com magazine. The last issue was delivered in December 2014. Under the new guidance, the ceasing of this publication does not represent a strategic shift in our operations and does not qualify as a discontinued operation.

Goodwill and other indefinite-lived intangible assets

Approximately 71% of our total assets as of June 30, 2015 consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each property. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations' compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. Broadcast licenses account for approximately 94% of our indefinite-lived intangible assets. Goodwill and magazine mastheads account for the remaining 6%. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

We complete our annual impairment tests in the fourth quarter of each year. We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures* as Level 3 inputs discussed in detail in Note 14 to our Condensed Consolidated Financial Statements.

Impairment of long-lived assets

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

Income taxes and uncertain tax positions

We account for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. We recorded no adjustments to our unrecognized tax benefits as of June 30, 2015 and 2014. At December 31, 2014, we had $0.5 million in liabilities for unrecognized tax benefits. Included in this liability amount were $0.02 million accrued for the related interest, net of federal income tax benefits, and $0.02 million for the related penalty recorded in income tax expense on our Condensed Consolidated Statements of Operations. We expect to reduce the reserve balance by $0.4 million over the next twelve months due to statute expirations.

Valuation Allowance (Deferred Taxes)

For financial reporting purposes, we recorded a valuation allowance of $3.0 million as of June 30, 2015 to offset a portion of the deferred tax assets related to the state net operating loss carryforwards. We regularly review our financial forecasts in an effort to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on our estimate of the benefit the company will receive from such carryforwards.

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 liability of $0.5 million as of June 30, 2015, representing the change in the fair value of the interest rate swap agreement. The swap was valued based on observable inputs for similar assets and liabilities and other observable inputs for interest rates and yield curves, which are classified within Level 2 inputs in the fair value hierarchy described below and in Note 14 to our condensed consolidated financial statements.

Fair value measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* established a single definition of fair value in generally accepted accounting principles and expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. We adopted the fair value provisions for financial assets and financial liabilities effective January 1, 2008. The adoption had a material impact on our consolidated financial position, results of operations or cash flows. We adopted fair value provisions for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value. The adoption of the fair value provisions of FASB ASC Topic 820 to nonfinancial assets and nonfinancial liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows.

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

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

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

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

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

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

As of June 30, 2015, 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. The following table summarizes the fair value of our financial assets that are measured at fair value:

	June 30, 2015			
	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	**$192**	$ 192	$ —	$ —
Trade accounts receivable, net	**34,842**	34,842	—	—
Liabilities:				
Accounts payable	**4,587**	4,587	—	—
Accrued expenses including estimated fair value of contingent earn-out consideration	**11,920**	10,730	—	1,190
Accrued interest	**49**	49	—	—
Long term liabilities including estimated fair value of contingent earn-out consideration	**1,115**	29	—	1,086
Long-term debt	**278,239**	278,239	—	—
Fair value of interest rate swap	**501**	—	501	—

Stock-based compensation

We account for stock-based compensation under the provisions of FASB ASC Topic 718, *Compensation—Stock Compensation*. We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of 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.

LIQUIDITY AND CAPITAL RESOURCES

While our focus continues to be on deleveraging the company, we remain committed to explore and pursue strategic acquisitions. Our acquisition agreements for Twitchy.com in December 2013, Eagle Publishing in January 2014, Bryan Perry Newsletters in February 2015 and the Daily Bible Devotional in May 2015 contain contingent earn-out arrangements based on future operating results. We believe that these contingent earn-out arrangements provide some degree of protection with regard to our cash outflows should these acquisitions not meet our operational expectations. We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and from proceeds on selected asset dispositions. We expect to fund future acquisitions from cash on hand, borrowings under our credit facilities, operating cash flow and possibly through the sale of income-producing assets or proceeds from debt and equity offerings. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, and capital expenditures from operating cash flow, borrowings under the Revolver and, if necessary, proceeds from the sale of selected assets or radio stations.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses, expand our Internet offerings, improve our facilities and upgrade our computer infrastructures. The nature and timing of these upgrades and expenditures can be delayed or scaled back at the discretion of management. Based on our current plans, we expect to incur additional capital expenditures of approximately $6 million during the remainder of 2015.

We paid total cash distributions of $3.3 million during the six months ending June 30, 2015 on our Class A and Class B common stock. The actual declaration of dividends and distributions, as well as the establishment of per share amounts, dates of record, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial requirements, and other factors. The current policy of the Board of Directors is to review each of these factors on a quarterly basis to determine the appropriate amount, if any, to allocate toward a cash distribution with the general principle of using approximately 20% of free cash flow. Free cash flow is a non-GAAP financial measure defined in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K. Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual distributions of approximately $6.6 million in 2015.

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

Cash Flows

Cash and cash equivalents increased $0.1 million to $0.2 million as of June 30, 2015 compared to $33,000 as of December 31, 2014. Working capital decreased $3.4 million to $11.2 million as of June 30, 2015 compared to $14.6 million as of December 31, 2014. During the six months ending June 30, 2015, the balances outstanding under our consolidated debt agreements ranged from $274.0 million to $277.8 million. These balances were ordinary and customary based on our operating and investing cash needs during this time.

The following events impacted our liquidity and capital resources during the six months ended June 30, 2015:

Operating Cash Flows:

- Our net operating income from continuing operations increased $2.1 million to $3.8 million from $1.7 million for the same period of the prior year; and
- Our Day's Sales Outstanding, or the average number of days to collect receivables from the date of sale, was consistent at 67 days at June 30, 2015 and 2014.

Investing Cash Flows:

- Cash paid for acquisitions decreased $4.0 million to $6.5 million from $10.5 million for the same period of the prior year; and
- Cash paid for capital expenditures decreased $1.8 million to $4.2 million from $6.0 million for the same period of the prior year.

Financing Cash Flows:

- We repaid $2.0 million of principal outstanding on the Term Loan B compared to $2.3 million of principal in the same period of the prior year; and

- We paid cash distributions of $3.3 million, on our Class A and Class B common stock as compared to $3.0 million for the same period of the prior year.

Credit Facilities

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 the Salem Media Group, Inc. other than the subsidiary guarantors are minor.

Term Loan B and Revolving Credit Facility

On March 14, 2013, we entered into a senior secured credit facility, consisting of the Term Loan B of $300.0 million and a revolving credit facility of $25.0 million ("Revolver"). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount is being amortized to non-cash interest expense over the life of the loan using the effective interest method. For each of the three and six months ended June 30, 2014 and 2015, approximately $48,000 and $94,000, respectively, and $47,000 and $93,000, respectively, of the discount has been recognized as interest expense including approximately $27,000 of bank loan fees.

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 which began on September 30, 2013 for the Term Loan B. Prepayments may be made against the outstanding balance of our Term Loan B. Each repayment of the outstanding 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.

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

Date	Principal Paid	Unamortized Discount
	(Dollars in Thousands)	
January 30, 2015	$ 2,000	$ 15
December 31, 2014	4,000	16
November 28, 2014	4,000	15
September 29, 2014	5,000	18
March 31, 2014	2,250	8
December 30, 2013	750	3
September 30, 2013	4,000	16
June 28, 2013	4,000	14

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’s 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 June 30, 2015, the blended interest rate on amounts outstanding under the Term Loan B and Revolver was 5.04%.

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

The obligations under the credit agreement and the related loan documents are secured by liens on substantially all of the assets of Salem and its subsidiaries, other than certain exceptions set forth in the Security Agreement, dated as of March 14, 2013, among Salem, the subsidiary guarantors party thereto, and Wells Fargo Bank, National Association, 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 steps up to 2.50 to 1.0 by 2016 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 June 30, 2015, our leverage ratio was 5.39 to 1 compared to our compliance covenant of 6.25 and our interest coverage ratio was 3.30 compared to our compliance ratio of 2.25. We were in compliance with our debt covenants under the credit facility at June 30, 2015.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2014 and June 30, 2015 represents the present value of future commitments under the capital lease agreements.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2014	As of June 30, 2015
	(Dollars in thousands)	
Term Loan B	$ 274,933	$ 273,041
Revolver	1,784	4,468
Capital leases and other loans	788	730
	277,505	278,239
Less current portion	(1,898)	(5,327)
	$ 275,607	$ 272,912

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of June 30, 2015:

- Outstanding borrowings of $274.0 million under the Term Loan B with interest payments due at LIBOR (subject to a floor of 1.00%) plus 3.50% or prime rate plus 2.50%; and
- Outstanding borrowings of $4.5 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.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at June 30, 2015 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended June 30,	Amount (Dollars in thousands)
2016	$ 5,327
2017	3,109
2018	3,112
2019	3,102
2020	3,103
Thereafter	260,486
	$ 278,239

Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets

Under FASB ASC Topic 350, *Intangibles—Goodwill and Other*, indefinite-lived intangibles, including broadcast licenses, goodwill and mastheads are not amortized but instead are tested for impairment at least annually, or more frequently if events or circumstances indicate that there may be an impairment. Impairment is measured as the excess of the carrying value of the indefinite-lived intangible asset over its fair value. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are measured for impairment if events or circumstances indicate that they may be impaired. Impairment losses are recorded as operating expenses. We have incurred significant impairment losses in prior periods with regard to our indefinite-lived intangible assets.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

We have, from time to time, divested certain of our radio stations and assets. In connection with these divestitures, we often provide representations, warranties and/or indemnities to cover various risks and unknown liabilities, such as environmental liabilities. We cannot estimate the potential liability from such representations, warranties and indemnities because they relate to unknown conditions.

We indemnify our directors and certain employees as permitted by law. We have not recorded a liability associated with these indemnification arrangements as we historically have not incurred any losses associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that we maintain; however, such insurance may not cover any of, or may cover only a portion of, the amounts we may be required to pay. In addition, such insurance coverage could change in the future.

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements or other contractually narrow or limited purposes at June 30, 2015. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

As of June 30, 2015, we had no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

DERIVATIVE INSTRUMENTS

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

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

On March 27, 2013, we entered into an interest rate swap agreement with Wells Fargo 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. All changes in the fair value of the non-cash flow hedge 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 June 30, 2015, 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 in Note 14.

	As of December 31, 2014	As of June 30, 2015
	(Dollars in thousands)	
Fair value of interest rate swap asset (liability)	$ 475	$ (501)

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2015.

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We and our subsidiaries, incident to our business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. We maintain insurance that may provide coverage for such matters. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. We believe, at this time, that the final resolution of these matters, individually and in the aggregate, will not have a material adverse effect upon our annual consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Annual Report"), a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the "Risk Factors"). The Risk Factors are hereby incorporated in Part II, Item 1A of this Form 10-Q. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock. There are no material changes from the Risk Factors disclosed in the 2014 Annual Report.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

See "Exhibit Index" below.

SIGNATURES

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

	SALEM MEDIA GROUP, INC.
August 7, 2015	
	By: /s/ EDWARD G. ATSINGER III Edward G. Atsinger III Chief Executive Officer (Principal Executive Officer)
August 7, 2015	
	By: /s/ EVAN D. MASYR Evan D. Masyr Executive Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Date of First Filing**	**Exhibit Number**	**Filed Herewith**
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.	-	-	-	-	X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.	-	-	-	-	X
101	The following financial information from the Quarterly Report on Form 10-Q for the three and six months ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to the Condensed Consolidated Financial Statements.	-	-	-	-	X