SALEM MEDIA GROUP, INC. /DE/
Form 10-K
March 13, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER 000-26497

SALEM MEDIA GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
	Emerging Growth Company

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

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

As of June 30, 2018, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $57,213,462 based on the closing sale price as reported on the NASDAQ Global Market.

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

Class A	Outstanding at March 5, 2019
Common Stock, $0.01 par value per share	20,632,416 shares
Class B	Outstanding at March 5, 2019
Common Stock, $0.01 par value per share	5,553,696 shares

DOCUMENTS INCORPORATED BY REFERENCE

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

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CERTAIN DEFINITIONS

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

All metropolitan statistical area (MSA) rank information used in this report, excluding information concerning The Commonwealth of Puerto Rico, is from the Fall 2018 Radio Market Survey Schedule & Population Rankings published by Nielsen Audio (Nielsen). According to the Radio Market Survey, the population estimates are based upon the 2010 U.S. Bureau Census estimates updated and projected to January 1, 2019 by Nielsen.

CAUTIONARY STATEMENT 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 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).

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PART I

ITEM 1. BUSINESS.

Corporate Information

Salem Media Group, Inc. (Salem) is a domestic multimedia company specializing in Christian and conservative content, with media properties comprising radio broadcasting, digital media, and publishing. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. Our filings with the Securities and Exchange Commission (SEC) are available under the Investor Relations section of our website at www.salemmedia.com. Any information found our website is not a part of or incorporated by reference into, this or any report of Salem filed with, or furnished to the SEC.

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

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

Business Strategy

We are fundamentally committed to programming and content emphasizing Christian values, conservative family themes and news. Our commitment to these values means that we may choose not to switch to other formats or pursue potentially more profitable business opportunities in response to changes in audience preferences.

Our goal is to produce and deliver compelling content to audiences interested in Christian and family-themed programming and conservative news talk to be considered the market leader for all audiences, programmers and advertisers. Our integrated multimedia platform includes traditional media, such as radio broadcasting, print magazines and book publishing as well as emerging forms of media, such as websites, mobile applications and digital publications. We pursue the ongoing expansion of our media platform as the marketplace evolves while aggressively managing operating costs and cash flows. Expansion opportunities include increasing the strength and reach of our broadcast signals, investing in and building our websites, mobile and tablet applications, promoting our authors and on-air talent, and increasing the distribution and page views for our print and digital content. Our national presence in each of these mediums provides advertisers and programmers with a powerful and integrated platform to reach audiences throughout the United States without compromising the sense of community involvement and branding that we generate through local events and promotions.

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. To operate our broadcast entities efficiently, we assemble market clusters, or multiple radio stations operating within the same geographic market. Several benefits are achievable when operating market clusters. First, we are able to offer advertisers and programmers access to multiple audiences by providing airtime on each radio station in that market when advantageous. Second, we realize cost and operating efficiencies by consolidating sales, technical and administrative support, promotional functions and other shared overhead costs, such as facilities and rent, when possible. Third, the addition of new radio stations into existing markets allows us to leverage our hands-on knowledge of that market to increase our appeal to new audiences and advertisers.

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Digital Media

The Internet, smartphones and tablets continue to change the way in which content is delivered to audiences. Continual advancements with online search engines, social media sites and mobile applications provides consumers with numerous methods to locate specific content and information online. Our editorial staff, including our on-air personalities, provide digital commentaries, programs, text, audio and video content that we believe to be knowledge-based, credible and reliable. We make strategic decisions to invest in website development and to invest in mobile and tablet platforms given the ongoing shift in consumer demand. On an ongoing basis, we seek opportunities to diversify our digital traffic sources to avoid reliance on any one provider.

Publishing

Print books and eBooks provide a distribution network for audiences interested in Christian and family-themed content as well as conservative news and opinion. Our strategy to attract highly sought after authors and high-profile Christian commentators expands our presence in the conservative and Christian media market and increases the likelihood of printing books that appear on the best-seller lists.

Audience Growth

Our success depends on our ability to reach a growing audience. We seek audience growth opportunities by increasing the strength and number of our broadcast signals, increasing the number of page-views through our digital media platform, increasing book sales and increasing the subscriber base for our digital content and print magazine. To increase our broadcast signals, we acquired several FM translators and FM translator construction permits during the year ended December 31, 2017 that we implemented throughout the year ended December 31, 2018. Construction permits provide us the authority to construct new FM translators or make changes in our existing facilities that can increase our audience by providing enhanced coverage and reach in existing AM broadcast markets. FM translators allow our AM stations to be heard on FM.

Our audience growth is also contingent upon the desirability of our content to our audience. We produce and provide content that we believe is both compelling and of high commercial value. We rely on a combination of research, market testing and our understanding of our audience to target promotions and events that create visibility and brand awareness in each of our local markets. For maximum results, we cross-promote our content on each of our media platforms. By maximizing our audience share, we achieve growth in ratings, growth in page views and growth in subscribers that we believe can be converted into revenue from programmers and advertisers that are interested in reaching our audience.

Media Strategists

We have assembled an effective, highly trained sales staff that is responsible for converting our audience share into revenue. Every member of our sales team is a media strategist able to provide integrated marketing strategies that include all of our media platforms and a full-service digital agency. We operate a focused, sales-oriented culture that rewards selling efforts through a commission and bonus compensation structure. Our media strategists are provided with the tools and resources necessary to compete effectively in the marketplace. We sell and market our platforms as stand-alone products or in combination with other offerings. We create custom advertising campaigns to provide comprehensive solutions for our clients. Campaigns may include specific geographic coverage areas, event sponsorships, special promotions, e-mail sponsorships, print advertisements, and digital media elements such as banner advertisements, social media distribution, site retargeting and search engine marketing.

Significant Community Involvement

We expect our public image to reflect the lifestyle and viewpoints of the target demographic groups that we serve. We regularly collaborate with organizations that serve Christian, conservative, and family-themed audiences as well as sponsor and support events that are important to this group. We believe that our ongoing active involvement and our strong relationships within Christian and conservative communities provide us with a unique competitive advantage that significantly improves the marketability of our media platform to advertisers and programmers targeting such communities. We produce and sponsor a number of local events that we believe are important in building our brand identity. Our sponsored events include listener rallies, speaking tours, pastor appreciation events and concerts such as our *Celebrate Freedom*® Music Festivals and *Fishfest*® concerts. Local events such as these connect us with our audience and enable us to create an enhanced awareness and name recognition in each of our markets. We believe that this brand awareness creates loyalty with our audience and increases our audience share and ratings over time.

Corporate Structure

Management of our operations is largely decentralized with operational vice presidents and general managers located throughout the United States. We believe that this decentralization encourages each general manager and vice president to apply innovative techniques for improving and growing their operations locally in ways that may be transferable to benefit other markets and operations.

Our broadcast operations vice presidents, some of whom are also station general managers, are experienced radio broadcasters with expertise in sales, programming, marketing and production. Each of our broadcast operations vice presidents oversees several markets on a regional basis. Our digital and publishing operations vice presidents and general managers are located throughout the United States at locations in which our entities operate.

All of our operations receive executive leadership and oversight from our corporate staff. Corporate staff members have experience and expertise in, among other things, accounting and finance, treasury, risk management, insurance, information technology, human resources, legal, engineering, real estate, strategic direction and other support functions designed to provide resources to local management. Corporate staff also oversee the placement and rate negotiations for national block programming on our stations. Centralized oversight of national programming is necessary because several of our key programming partners purchase times in multiple radio markets.

Recent Events

During the year ended December 31, 2018, we completed or entered into the following transactions:

Debt

We may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to repurchase the 6.75% Senior Secured Notes (Notes   ) in open market transactions, privately negotiated transactions, by tender offer or otherwise, as market conditions warrant.

Based on the then existing market conditions, we completed repurchases of the Notes at amounts less than face value as follows:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
December 21, 2018	$ 2,000	$ 1,835	91.75%	$ 38	$ 127
December 21, 2018	1,850	1,702	92.00%	35	113

December 21, 2018	1,080	999	92.50%	21	60
November 17, 2018	1,500	1,357	90.50%	29	114
May 4, 2018	4,000	3,770	94.25%	86	144
April 10, 2018	4,000	3,850	96.25%	87	63
April 9, 2018	2,000	1,930	96.50%	43	27
	$ 16,430	$ 15,443			

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Equity

Based upon their current assessment of our business, our Board of Directors declared equity distributions as follows:

Announcement Date	Record Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
November 26, 2018	December 7, 2018	December 21, 2018	$ 0.0650	$ 1,702
September 5, 2018	September 17, 2018	September 28, 2018	0.0650	1,702
May 31, 2018	June 15, 2018	June 29, 2018	0.0650	1,701
February 28, 2018	March 14, 2018	March 28, 2018	0.0650	1,701
				$ 6,806

Acquisitions

On September 11, 2018, we acquired radio station KTRB-AM in San Francisco from a related party for $5.1 million in cash. We incurred costs of $0.2 million associated with this asset purchase.

On August 9, 2018, we acquired the Hilary Kramer Financial Newsletter and related assets valued at $2.0 million and we assumed deferred subscription liabilities valued at $1.5 million. We paid $0.4 million in cash upon closing and as part of the purchase agreement, may pay up to an additional $0.1 million of contingent earn-out consideration over the next two years based on the achievement of certain revenue benchmarks.

On August 7, 2018, we acquired the Just1Word mobile applications and related assets for $0.3 million in cash upon closing with up to an additional $0.1 million of contingent earn-out consideration due over the next two years based on the achievement of certain revenue benchmarks.

On July 25, 2018, we acquired radio station KZTS-AM (formerly KDXE-AM) and an FM Translator in Little Rock, Arkansas for $0.2 million in cash.

On July 24, 2018, we acquired the Childrens-Ministry-Deals.com website and related assets for $3.7 million in cash. We paid $3.5 million in cash upon closing and may pay an additional $0.2 million in cash within twelve months from the closing date provided that the seller meet certain post-closing requirements with regard to intellectual property.

On June 25, 2018, we acquired radio station KDXE-FM (formerly KZTS-FM) in Little Rock, Arkansas for $1.1 million in cash.

On April 19, 2018, we acquired the HearItFirst.com domain name and related social media assets for $70,000 in cash.

A summary of our business acquisitions and asset purchases during the year ended December 31, 2018, none of which were individually or in the aggregate, material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	**Description**		**Total Cost** *(Dollars in thousands)*
September 11, 2018	KTRB-AM, San Francisco, California (asset purchase)	**$**	**5,349**
August 9, 2018	Hilary Kramer Financial Newsletter (business acquisition)		**439**
August 7, 2018	Just1Word (business acquisition)		**312**
July 25, 2018	KZTS-AM (formerly KDXE-AM), Little Rock, Arkansas (asset purchase)		**210**
July 24, 2018	Childrens-Ministry-Deals.com (business acquisition)		**3,700**
June 25, 2018	KDXE-FM (formerly KZTS-FM), Little Rock, Arkansas (business acquisition)		**1,100**
April 19, 2018	HearItFirst.com (asset purchase)		**70**
		$	**11,180**

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Divestitures

On October 31, 2018, we closed on the sale of radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska for $1.4 million in cash.

On August 28, 2018, we closed on the sale of radio station WQVN-AM (formerly WKAT-AM) in Miami, Florida for $3.5 million in cash.

On August 6, 2018, we closed on the sale of radio station KGBI-FM in Omaha, Nebraska for $3.2 million in cash.

On June 28, 2018, we closed on the sale of land in Lakeside, California for $0.3 million in cash.

On June 20, 2018, we closed on the sale of radio station WBIX-AM in Boston, Massachusetts for $0.7 million in cash.

On May 24, 2018, we closed on the sale of land in Covina, California for $0.8 million in cash.

Other Transactions

On April 30, 2018, we ceased programming radio station KHTE-FM, in Little Rock, Arkansas. We programmed the station under a Time Brokerage Agreement (TBA) beginning on April 1, 2015. We had the option to acquire the station for $1.2 million in cash during the TBA period. We paid the licensee a $0.1 million fee for not exercising our purchase option for the station.

On January 2, 2018, we began programming radio stations KPAM-AM and KKOV-AM in Portland, Oregon under Local Marketing Agreements (LMAs) entered on December 29, 2017, with original terms of up to 12 months. The LMAs terminated on March 30, 2018 when the radio stations were sold to another party. We entered a second LMA with the new owner as of the closing date under which we continue to program radio station KPAM-AM.

Pending Transactions

On April 26, 2018, we entered an agreement to exchange radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. The exchange transaction is subject to the approval of the Federal Communications Commission (FCC) and is expected to close in the first half of 2019.

In December 2018, Word Broadcasting notified us of their intent to purchase our Louisville radio stations. They began operating the stations under a TBA on January 3, 2017 that will continue until the purchase agreement is executed and the transaction closes.

Broadcasting

Our broadcast segment includes the operating results of our radio stations, broadcast networks, and our national sales agencies including our new digital agency Salem Surround. National companies often prefer to advertise across the United States as an efficient and cost effective way to reach their target audiences. Our national platform under which we offer radio airtime, digital campaigns and print advertisements can benefit national companies by reaching audiences throughout the United States.

Radio Stations

We own and/or operate 116 radio stations in 39 markets, including 73 stations in 23 of the top 25 markets, consisting of 33 FM radio stations and 83 AM radio stations. We also program the Family Talk® Christian-themed talk format station on SiriusXM Channel 131. We are one of only three commercial radio broadcasters with radio stations in all of the top 10 markets. We are the sixth largest commercial radio broadcaster in the United States as measured by number of radio stations overall and the third largest operator as measured by number of stations in the top 25 markets.

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We program our radio stations in three main formats: (1) Christian Teaching and Talk, (2) News Talk and (3) Contemporary Christian Music (CCM). Other radio station formats include Spanish Christian Teaching and Talk, Business, Country, Urban, Classic Hits and Wellness.

Christian Teaching and Talk. We currently program 39 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 recognize revenue from the sale of blocks of airtime to program producers that typically range from 12$^1/_2$, 25 or 50-minutes of time. 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. National programmers, such as established non-profit religious and educational organizations, typically purchase time on a Monday through Friday basis with supplemental programming blocks available for weekend release. Local programmers, such as community organizations and churches, typically purchase blocks for weekend releases. Historically, more than 95% of these religious and charitable organizations renew their annual programming relationships with us. Based on our historical renewal rates, we believe that block programming provides a steady and consistent source of revenue and cash flows. Our top ten programmers have remained relatively constant and average more than 30 years on-air. Over the last five years, block-programming has generated 41% to 43% of our total net broadcast revenue.

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

News Talk. We currently program 33 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 allows us to leverage syndicated talk programming produced by Salem Radio Network™ (SRN™) to radio stations throughout the United States. Syndication of our programs allows us to reach audiences in markets in which we do not own or operate radio stations.

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

The following table sets forth information about each of Salem s stations, in order of market size:

Market(1)	MSA Rank(2)	Station Call Letters	Year Acquired	Format
New York, NY	1, 19(3)	WMCA-AM	1989	Christian Teaching and Talk

		WNYM-AM	1994	News Talk
Los Angeles, CA	2	KKLA-FM	1985	Christian Teaching and Talk
		KRLA-AM	1998	News Talk
		KFSH-FM	2000	Contemporary Christian Music
Chicago, IL	3	WYLL-AM	2001	Christian Teaching and Talk
		WIND-AM	2005	News Talk

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Market(1)	MSA Rank(2)	Station Call Letters	Year Acquired	Format
San Francisco, CA	4, 36(4)	KFAX-AM	1984	Christian Teaching and Talk
		KDOW-AM	2001	Business
		KTRB-AM	2018	News Talk
Dallas-Fort Worth, TX	5	KLTY-FM	1996	Contemporary Christian Music
		KWRD-FM	2000	Christian Teaching and Talk
		KSKY-AM	2000	News Talk
		KTNO-AM	2012	Spanish Language Christian Teaching and Talk
		KEXB-AM	2015	Business
Houston-Galveston, TX	6	KNTH-AM	1995	News Talk
		KKHT-FM	2005	Christian Teaching and Talk
		KTEK-AM	2011	Business
Washington, D.C.	7	WAVA-FM	1992	Christian Teaching and Talk
		WAVA-AM	2000	Christian Teaching and Talk
		WSPZ-AM	2010	Christian Teaching and Talk
		WWRC-AM	2017	News Talk
Atlanta, GA	8	WNIV-AM	2000	Christian Teaching and Talk
		WLTA-AM	2000	Christian Teaching and Talk
		WAFS-AM	2000	Business
		WFSH-FM	2000	Contemporary Christian Music
		WGKA-AM	2004	News Talk
		WDWD-AM	2015	Christian Teaching and Talk
Philadelphia, PA	9	WFIL-AM	1993	Christian Teaching and Talk
		WNTP-AM	1994	News Talk
Boston, MA	10	WEZE-AM	1997	Christian Teaching and Talk
		WROL-AM	2001	Christian Teaching and Talk
		WWDJ-AM	2003	Spanish Language Christian Teaching and Talk
Miami, FL	11	WKAT-AM	2008	Spanish Language Christian Teaching and Talk
		WZAB-AM	2009	Business
		WOCN-AM	2014	Contemporary Christian Music
Seattle-Tacoma, WA	12	KGNW-AM	1986	Christian Teaching and Talk
		KLFE-AM(5)	1994	News Talk
		KNTS-AM(5)	1997	Spanish Language Christian Teaching and Talk
		KKOL-AM	1997	
Detroit, MI	13	WDTK-AM	2004	News Talk
		WLQV-AM	2006	Christian Teaching and Talk
Phoenix, AZ	14	KKNT-AM	1996	News Talk
		KPXQ-AM	1999	Christian Teaching and Talk
		KXXT-AM	2014	Christian Teaching and Talk
Minneapolis-St. Paul, MN	15	KKMS-AM	1996	Christian Teaching and Talk
		KDIZ-AM	1998	Wellness
		WWTC-AM	2001	News Talk

		KYCR-AM	2015	Business
San Diego, CA	16	KPRZ-AM	1987	Christian Teaching and Talk
		KCBQ-AM	2000	News Talk

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Market(1)	MSA Rank(2)	Station Call Letters	Year Acquired	Format
Tampa, FL	17	WTWD-AM(7)	2000	Christian Teaching and Talk
		WTBN-AM(7)	2001	Christian Teaching and Talk
		WGUL-AM	2005	News Talk
		WLCC-AM	2012	Spanish Language Christian Teaching and Talk
		WWMI-AM	2015	Business
Denver-Boulder, CO	18	KRKS-FM	1993	Christian Teaching and Talk
		KRKS-AM	1994	Christian Teaching and Talk
		KNUS-AM	1996	News Talk
		KBJD-AM(6)	1999	Spanish Language Christian Teaching and Talk
		KDMT-AM	2015	Business
Portland, OR	21	KPDQ-FM	1986	Christian Teaching and Talk
		KPDQ-AM	1986	Christian Teaching and Talk
		KFIS-FM	2002	Contemporary Christian Music
		KRYP-FM	2005	Regional Mexican
		KDZR-AM	2015	News Talk
		KPAM-AM	LMA	News Talk
St. Louis, MO	23	WSDZ-AM	2015	Urban Gospel
		KXFN-AM	2016	News Talk
Riverside-San Bernardino, CA	24	KTIE-AM	2001	News Talk
San Antonio, TX	25	KSLR-AM	1994	Christian Teaching and Talk
		KLUP-AM	2000	News Talk
		KRDY-AM	2014	News Talk
Sacramento, CA	26	KFIA-AM	1995	Christian Teaching and Talk
		KTKZ-AM	1997	News Talk
		KSAC-FM	2002	Business
		KKFS-FM	2006	Contemporary Christian Music
Pittsburgh, PA	27	WORD-FM	1993	Christian Teaching and Talk
		WPIT-AM	1993	Christian Teaching and Talk
		WPGP-AM	2015	News Talk
Orlando, FL	30	WORL-AM	2006	News Talk
		WTLN-AM	2006	Christian Teaching and Talk
		WBZW-AM	2006	Business
		WDYZ-AM	2015	Spanish Language Christian Teaching and Talk
Cleveland, OH	33	WHKW-AM	2000	Christian Teaching and Talk
		WFHM-FM	2001	Contemporary Christian Music
		WHK-AM	2005	News Talk
Columbus, OH	35	WRFD-AM	1987	Christian Teaching and Talk
		WTOH-FM	2013	News Talk
Nashville, TN	42	WBOZ-FM(8)	2000	Contemporary Christian Music
		WFFH-FM(8)	2002	Contemporary Christian Music
		WFFI-FM(8)	2002	Contemporary Christian Music
Louisville, KY	53	WFIA-FM	1999	Operated by a third party under a TBA

		WGTK-AM	2000	Operated by a third party under a TBA
		WFIA-AM	2001	Operated by a third party under a TBA
Greenville, SC	58	WGTK-FM	2013	News Talk
		WRTH-FM	2014	Classic Hits
		WLTE-FM	2014	Classic Hits

Market(1)	MSA Rank(2)	Station Call Letters	Year Acquired	Format
Honolulu, HI	62	KAIM-FM	2000	Contemporary Christian Music
		KGU-AM	2000	Country
		KHCM-AM	2000	Operated by a third party under a TBA
		KHCM-FM	2004	Country Music
		KGU-FM	2004	Christian Teaching and Talk
		KKOL-FM	2005	Oldies
		KHNR-AM	2006	News Talk
Sarasota-Bradenton, FL	70	WLSS-AM	2005	News Talk
Little Rock, AR	86	KDIS-FM	2014	Christian Teaching and Talk
		KKSP-FM	2015	Contemporary Christian Music
		KDXE-FM	2018	News Talk
		KZTS-AM	2018	Urban
Colorado Springs, CO	89	KGFT-FM	1996	Christian Teaching and Talk
		KBIQ-FM	1996	Contemporary Christian Music
		KZNT-AM	2003	News Talk
Oxnard-Ventura, CA	119	KDAR-FM	1974	Christian Teaching and Talk
Youngstown-Warren, OH	131	WHKZ-AM	2001	Christian Teaching and Talk
Warrenton, VA		WRCW-AM	2012	News Talk

(1) Actual city of license may differ from metropolitan market served.
(2) All metropolitan statistical area (MSA) rank information used in this annual report on Form 10-K, excluding information concerning The Commonwealth of Puerto Rico, is from the Fall 2018 Radio Market Survey Schedule & Population Rankings published by Nielsen. According to the Radio Market Survey, the population estimates are based upon the 2010 U.S. Bureau Census estimates updated and projected to January 1, 2019 by Nielsen Demographics.
(3) This market includes the Nassau-Suffolk, NY Metro market, which independently has a MSA rank of 19.
(4) This market includes the San Jose, CA market, which independently has a MSA rank of 36.
(5) KNTS(AM) is an expanded band AM station paired with KLFE(AM). The licenses for these stations include a condition that the most recent license renewal was granted subject to the resolution of AM expanded band dual operating authority issues in MB Docket No. 07-294.
(6) KBJD(AM) is an expanded band AM station paired with KRKS(AM). The licenses for these stations include a condition that the most recent license renewal was granted subject to the resolution of AM expanded band dual operating authority issues in MB Docket No. 07-294.
(7) WTBN-AM is simulcast with WTWD-AM, Tampa, FL.
(8) WBOZ-FM is trimulcast with WFFH-FM, Nashville, TN and WFFI-FM, Nashville, TN.

Broadcast revenue includes radio advertising spots, programming revenue, digital revenues from each of our radio station websites, digital email blasts, Salem Surround revenue, event revenue, and network advertising revenue. The principal source of network broadcast revenue is from the sale of spot advertising time. Salem Consumer Products, our e-commerce site, generates broadcast revenue from the sale of host content materials:

We recognize advertising revenue from radio stations as the spots air or are delivered. For the year ended December 31, 2018, we derived 28.1% of our net broadcast revenue, or $55.9 million, from the sale of local spot advertising and 8.2% of our net broadcast revenue, or $16.3 million, from the sale of national spot advertising.

We recognize programming revenue as the programs air. For the year ended December 31, 2018, we derived 25.1% and 16.8% of our net broadcast revenue, or $49.9 million and $33.3 million, respectively, from the sale of national and local block programming time, respectively. National program revenue is primarily generated from geographically diverse, well-established non-profit religious and educational organizations that purchase time on our stations in a large number of markets in the United States. National program producers typically purchase $12\frac{1}{2}$, 25 or 50-minute blocks of time on a Monday through Friday basis and may offer supplemental programming for weekend release. We generate local program revenue from community organizations and churches that typically purchase blocks for weekend releases and from local speakers who generally purchase daily releases. Our strategy is to identify and assist quality local programs to expand into national syndication.

Salem Radio Network™

Salem Radio Network™ (SRN™), based in Dallas, Texas, develops, produces and syndicates a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and News Talk stations. SRN™ delivers programming via satellite to approximately 3,200 affiliated radio stations throughout the United States, including several of our Salem-owned stations. SRN™ operates five divisions, SRN™ Talk, SRN™ News, SRN™ Websites, SRN™ Satellite Services and Salem Music Network that includes Today s Christian Music (TCM) and Singing News® Radio. SRN™ s net revenue for the year ended December 31, 2018 was $18.5 million, or 9.3% of net broadcast revenue.

Salem Media Representatives

Salem Media Representatives (SMR) is our national advertising sales firm with offices in 14 U.S. cities. SMR specializes in placing national advertising on Christian and talk formatted radio stations as well as other commercial radio station formats. SMR sells commercial airtime to national advertisers on our radio stations and through our networks, as well as for independent radio station affiliates. SMR also contracts with independent radio stations to create custom advertising campaigns for national advertisers to reach multiple markets. SMR s commission revenue to independent radio station affiliates for the year ended December 31, 2018 was $0.8 million or 0.4% of net broadcast revenue.

Salem Surround

During 2018, we launched Salem Surround, a national multimedia advertising agency with locations in 35 markets across the United States. Salem Surround offers a comprehensive suite of digital marketing services to develop and execute audience-based marketing strategies for clients on both the national and local level. In our role as a digital agency, our sales team provides our customers with integrated digital advertising solutions that optimize the performance of their campaign. We provide custom digital product offerings, including tools for metasearch, retargeting, website design, reputation management, online listing services, and social media marketing. Digital advertising solutions may include third-party websites, such as Google or Facebook, which can be included in a digital advertising social media campaign. We manage all aspects of the digital campaign, including social media placements, review and approval of target audiences, and the monitoring of actual results to make modifications as needed.

Digital Media

Our digital media-based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Revenue generated from our digital media operating segment includes advertising arrangements based on cost-per-click or performance-based advertising; display advertisements where revenue is dependent upon the number of page views; and lead generation advertisements where revenue is dependent upon users registering for, purchasing or demonstrating an interest in our advertisers products or services. We also generate revenue from digital subscriptions, streaming, downloads and product sales through our church product sites, investing websites and health websites. Revenue is recognized upon digital delivery or page views, downloads and upon shipment of products. Revenue from this operating segment is reported as Digital Media revenue on our consolidated statements of operations included in Item 8 of this annual report on Form 10-K.

We own and operate numerous websites including:

Salem Web Network (SWN) Christian Content Websites:

BibleStudyTools.com is a free Bible website for verse search and in-depth studies featuring commentaries, reading plans, and other helpful resources designed as aids to Bible study.

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Crosswalk.com® offers compelling, editorial-driven, biblically based, lifestyle and devotional content to Christians who take seriously their relationship with Christ.

GodVine.com is an online platform designed to share inspirational, family-friendly video through Facebook and other social media outlets.

iBelieve.com creates editorial-driven, lifestyle content, focused on helping Christian women use personal experience to examine the deeper issues of life and faith.

GodTube®.com is a video viewing platform for Christian videos with faith-based, family-friendly content.

OnePlace .com is a leading provider of on-demand, online audio streaming for nearly 200 radio programs from more than 185 popular Christian broadcast ministries. Oneplace .com serves as both a complement to and an extension of our block programming Christian radio business.

Christianity.com offers engaging articles and video focused on exploring the deeper, theological issues and apologetics of the Christian faith. It is also a leading provider of online Bible trivia games.

GodUpdates.com provides inspiring stories, thought-provoking articles and videos about topics important to Christians.

CrossCards .com provides faith-based, inspirational e-greeting cards for all occasions.

ChristianHeadlines.com reports the news of importance to the Christian audience with a headlines blog, Christian worldview commentary, and features on events from the worldwide Christian Church.

LightSource.com provides on-demand, video streaming for nearly 85 Christian television programs from more than 70 ministry partners.

AllCreated.com offers recipes, clever life hacks, no-sense beauty tips and simple do-it-yourself projects for your home.

ChristianRadio.com directs visitors towards Christian Teaching Talk Stations and Christian Music Stations in their state from Salem Radio Network™.

CCMmagazine.com provides information and insight on Christian music.

SingingNews®.com provides information on Southern Gospel artists, industry news, concerts, and more.

SouthernGospel.com features the latest in new music, news, stories, tours and features the most vibrant Southern Gospel community on the web.

Townhall Media Conservative Opinion Websites:

Townhall.com® is an interactive community that brings users, conservative public policy organizations, congressional staff and political activists together under the broad umbrella of conservative thoughts, ideas and actions.

HotAir .com is a leading news and commentary site with conservative news and opinions.

Twitchy®.com is a website featuring selected quotes and current events centered on U.S. politics, global news, sports, entertainment, media, and breaking news.

RedState®.com is the leading conservative, political news blog for right of center activists.

BearingArms.com is a clearinghouse for news and resources on Second Amendment issues, gun control, self-defense and firearms.

ConservativeRadio.com is a connection to the most informative, intelligent talk radio hosts, both national hosts and local hosts, from stations across the country.

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Salem Church Products Websites:

Salem Church Products websites offer resources for churches and ministries in the areas of church media, worship, children s and youth ministry, preaching, teaching and employment. These websites include:

SermonSearch .com is a subscription-based resource for preachers and teachers with preparation materials like sermon outlines, illustrations, and preaching ideas from many of America s top Christian communicators.

ChurchStaffing.com is a source of job search information for churches and ministries offering a platform for personnel and staff relations. This site allows those seeking employment to submit resumes and view job listings.

WorshipHouseMedia.com is an online church media resource, providing videos and other multi-media resources to churches to enhance worship and sermons.

SermonSpice .com is an online provider of church media for local churches and ministries.

WorshipHouseKids.com provides children s and family ministry videos and media to make children s ministry fun, interactive and easy.

Preaching.com is a leading resource for pastors and church leaders that offers tools and ideas to help them lead well.

ChristianJobs.com provides services catering to the hiring needs of Christian-based businesses, nonprofit organizations, and ministries. The site connects these organizations with thousands of job seekers through its online presence and partnerships with Salem s radio stations.

Youthworker.com offers a wealth of resources specifically for student ministries to help enhance teaching and worship.

Childrens-Ministry-Deals.com offers a variety of digital resources including videos, song tracks, sermon archives, job listings and Sunday school curriculum to pastors and Church leaders.

Digital Financial Websites and Publications

Our digital platform includes the following investing websites and publications:

Eagle Financial Publications provides market analysis and investment strategies for individual subscribers to newsletters from a variety of investing commentators including Bob Carlson, Bryan Perry, Jim Woods, Hilary Kramer, and Dr. Mark Skousen.

www.DividendInvestor.com - offers stock screening tools and dividend information for individual subscribers to obtain dividend information and data.

www.StockInvestor.com - provides market analysis and investment strategies, recommendations, and opinions for individuals interested in the stock market.

newportnaturalhealth.com Newport Natural Health (NNH) is an e-commerce website operated by Eagle Wellness that offers health advice and wellness products. NNH provides insightful health advice and is a trusted source of high quality nutritional supplements from Leigh Erin Connealy, MD, who is the medical director of a medical practice where she practices integrative medicine.

Digital Mobile Applications

Our digital mobile applications, available in iOS and/or Android platforms, provide another means by which our content is available to our audiences. Our mobile applications include the following:

- Daily Bible Devotion
- King James Bible
- Daily Bible

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Christian Radio

OnePlace

Light Source

¡Citas y Mas Citas!

Bíblia Portuguese Bible

Bibliya Tagalog Bible

Japanese Bible

La Bibbia

La Biblia Reina Valera

Louis Segond French Bible

Luther Bible German

Spanish Bible Reina Valera

Vietnamese Bible

Vulgate Latin Bible

Twitchy®

HotAir™

Townhall®

Red State

Bible Study Tools

Bible Quotes

Bible Trivia

iBelieve

Bible Baseball Trivia

Christian Ecards

One Bible

Bible+1

Biblia*

Publishing

Our publishing segment operates a distribution network targeting audiences interested in Christian and family-themed content as well as conservative news and opinion. We operate three businesses in our publishing segment.

Regnery® Publishing is a traditional book publisher that has published dozens of bestselling books by leading conservative, Christian and history authors and personalities. Books are sold in traditional printed form and as eBooks.

Salem Author Services is a self-publishing service for authors through Xulon Press and Mill City Press. Xulon Press offers print-on-demand self-publishing services for Christian authors while Mill City Press serves most general market publications.

Singing News®, previously Salem Publishing, produces and distributes a print magazine for readers interested in southern gospel music.

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Competition

We operate in a highly competitive broadcast and media business. We compete for audiences, advertisers and programmers with other radio broadcasters, broadcast and cable television operators, newspapers and magazines, book publishers, national and local digital services, outdoor advertising, direct mail, online marketing and media companies, social media platforms, web-based blogs, and mobile devices.

BROADCASTING. Our broadcast audience ratings and market shares are subject to change, and any change in a particular market could adversely affect on the revenue of our stations located in that market. While we already compete in some of our markets with stations that offer similar formats, if another radio station were to convert its programming to a format similar to one of ours, or if an existing competitor were to strengthen its operations, our stations could suffer reduced ratings and/or reduced revenues. In these circumstances, we could also incur significantly higher promotional and other related expenses. We cannot assure that our stations will maintain or increase their current audience ratings and revenues.

We compete for advertising revenue with other commercial religious format stations as well as general format radio stations. Our competition for advertising dollars includes other radio stations as well as broadcast television, cable television, newspapers, magazines, direct mail, online and billboard advertising, some of which may be controlled by horizontally integrated companies. Several factors can materially affect competitive advantage, including, but not limited to audience ratings, program content, management talent and expertise, sales talent and experience, audience characteristics, signal strength, and the number and characteristics of other radio stations in the same market.

Christian and Family-Themed Radio. The segment of this industry that focuses on Christian and family themes is also a highly competitive business. The financial success of each of our radio stations that focuses on Christian Teaching and Talk is dependent, to a significant degree, upon its ability to generate revenue from the sale of block program time to national and local religious and educational organizations. We compete for this program revenue with a number of different commercial and non-commercial radio station licensees. While we believe that no commercial group owner in the United States specializing in Christian and family-themed programming approaches Salem in size of potential listening audience and presence in major markets, other religious radio stations exist and enjoy varying degrees of prominence and success in each of our markets.

New Methods of Content Delivery. Competition also comes from new media technologies and services. These include delivery of audio programming by cable television and satellite systems, digital audio radio services, mobile devices including smart phone applications for iPhone® and Android®, personal communications services, social media, and the service of low powered, limited coverage FM radio stations authorized by the FCC. The delivery of live and stored audio programming through the Internet has also created new competition. In addition, satellite delivered digital audio radio, which delivers multiple audio programming formats to national audiences, has created competition. We have attempted to address these existing and potential competitive threats through a more active strategy to acquire and integrate new electronic communications formats including digital acquisitions, the launch of Salem Surround, and our exclusive arrangement to provide Christian and family-themed talk on SiriusXM, a satellite digital audio radio service.

NETWORK. SRN™ competes with other commercial radio networks that offer news and talk programming to religious and general format stations and noncommercial networks that offer Christian music formats. SRN™ also competes with other radio networks for the services of talk show personalities.

DIGITAL MEDIA. SWN and Townhall Media compete for visitors and advertisers with other companies that deliver online audio programming, that deliver Christian and conservative digital content, and providers of general market websites. The online media and distribution business changes quickly and is highly competitive. We compete to attract and maintain interactions with advertisers, consumers, content creators and web publishers. Salem Church Products competes for customers with other online sites that offer resources useful in ministries, preaching, teaching and for employment within the Christian community. Our wellness products compete in a large, highly fragmented industry that includes specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, mail-order companies, other online retailers and pharmaceuticals.

PUBLISHING. Regnery® Publishing competes with other book publishers for readers and book sales as well as competes for product quality, customer service, suitability of format and subject matter, author reputation, price, timely availability of both new titles and revisions of existing books, digital availability of published products, and timely delivery of products to customers. Our print magazine competes for readers and advertisers with other print publications, including those geared toward Christian audiences. Salem Author Services competes for authors with other on-demand publishers including those focused exclusively on Christian book publishers.

Federal Regulation of Radio Broadcasting

Introduction. The ownership, operation and sale of broadcast stations, including those licensed to Salem, are subject to the jurisdiction of the FCC, which acts under authority derived from The Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder (the Communications Act). Among other things, the FCC assigns frequency bands for broadcasting; determines whether to approve certain changes in ownership or control of station licenses; regulates transmission facilities, including power employed, antenna and tower heights, and location of transmission facilities; adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations; and has the power to impose penalties for violations of its rules under the Communications Act.

The following is a brief summary of certain provisions of the Communications Act and of specific FCC regulations and policies. Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short (less than the maximum) license renewal terms or, for particularly egregious violations, the denial of a license renewal application, the revocation of a license or the denial of FCC consent to acquire additional broadcast properties. For further information concerning the nature and extent of federal regulation of broadcast stations you should refer to the Communications Act, FCC rules and the public notices and rulings of the FCC.

License Grant and Renewal. Radio broadcast licenses are granted for maximum terms of eight years. Licenses must be renewed through an application to the FCC. Under the Communications Act, the FCC will renew a broadcast license if it finds that the station has served the public interest, convenience and necessity, that there have been no serious violations by the licensee of the Communications Act or the rules and regulations of the FCC, and that there have been no other violations by the licensee of the Communications Act or the rules and regulations of the FCC that, when taken together, would constitute a pattern of abuse.

Petitions to deny license renewals can be filed by certain interested parties, including members of the public in a station s market. Such petitions may raise various issues before the FCC. The FCC is required to hold hearings on renewal applications if the FCC is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a substantial and material question of fact as to whether the grant of the renewal application would be *prima facie* inconsistent with the public interest, convenience and necessity. In addition, during certain periods when a renewal application is pending, the transferability of the applicant s license is restricted.

The following table sets forth information with respect to each of our radio stations for which we hold the license. Stations that we operate under an LMA or TBA are not reflected on this table. A broadcast station s market may be different from its community of license. The coverage of an AM radio station is chiefly a function of the power of the radio station s transmitter, less dissipative power losses and any directional antenna adjustments. For FM radio stations, signal coverage area is chiefly a function of the Effective Radiated Power

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(ERP) of the radio station s antenna and the Height Above Average Terrain (HAAT) of the radio station s antenna.

Market(1)	Station Call Letters	Frequency	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day/Night
New York, NY	WMCA	AM	570	June 2022	B	N/A	5/5
	WNYM	AM	970	June 2022	B	N/A	50/5
Los Angeles, CA	KKLA	FM	99.5	December 2021	B	2,959	10
	KRLA	AM	870	December 2021	B	N/A	50/3
	KFSH	FM	95.9	December 2021	A	328	6
Chicago, IL	WYLL	AM	1160	December 2020	B	N/A	50/50
	WIND	AM	560	December 2020	B	N/A	5/5
San Francisco, CA	KFAX	AM	1100	December 2021	B	N/A	50/50
	KDOW	AM	1220	December 2021	D	N/A	5/0.145
	KTRB	AM	860	December 2021	B	N/A	50/50
Dallas-Fort Worth, TX	KLTY	FM	94.9	August 2021	C	1,667	100
	KWRD	FM	100.7	August 2021	C	1,988	98
	KSKY	AM	660	August 2021	B	N/A	20/0.7
	KTNO	AM	1440	August 2021	B	N/A	50/0.35
	KEXB	AM	620	August 2021	B	N/A	5/4.5
Houston-Galveston, TX	KNTH	AM	1070	August 2021	B	N/A	10/5
	KKHT	FM	100.7	August 2021	C	1,952	100
	KTEK	AM	1110	August 2021	D	N/A	2.5
Washington, D.C.	WAVA	FM	105.1	October 2019	B	604	33
	WAVA	AM	780	October 2019	D	N/A	12
	WSPZ	AM	1260	October 2019	B	N/A	35/5
	WWRC	AM	570	October 2019	B	N/A	5/1
Atlanta, GA	WNIV	AM	970	April 2020	D	N/A	5/0.039
	WLTA	AM	1400	April 2020	C	N/A	1/1
	WAFS	AM	1190	April 2020	D	N/A	25
	WFSH	FM	104.7	April 2020	C1	1,657	24
	WGKA	AM	920	April 2020	B	N/A	14/0.49
	WDWD	AM	590	April 2020	B	N/A	12/4.5
Philadelphia, PA	WFIL	AM	560	August 2022	B	N/A	5/5
	WNTP	AM	990	August 2022	B	N/A	50/10
Boston, MA	WEZE	AM	590	April 2022	B	N/A	5/5
	WROL	AM	950	April 2022	D	N/A	5/0.09
	WWDJ	AM	1150	April 2022	B	N/A	5/5
Miami, FL	WKAT	AM	1080	February 2020	B	N/A	50/10
	WZAB	AM	880	February 2020	B	N/A	4/5
	WOCN	AM	1450	February 2020	C	N/A	1/1
Seattle-Tacoma, WA	KGNW	AM	820	February 2022	B	N/A	50/5
	KLFE	AM	1590	February 2022	B	N/A	20/5

	KNTS	AM	1680	February 2022	B	N/A	10/1
	KKOL	AM	1300	February 2022	B	N/A	50/3.2
Detroit, MI	WDTK	AM	1400	October 2020	C	N/A	1/1
	WLQV	AM	1500	October 2020	B	N/A	50/10
Phoenix, AZ	KKNT	AM	960	October 2021	B	N/A	5/5
	KPXQ	AM	1360	October 2021	B	N/A	50/1
	KXXT	AM	1010	October 2021	B	N/A	15/0.25

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Market(1)	Station Call Letters	Frequency	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day/Night
Minneapolis-St. Paul, MN	KKMS	AM	980	April 2021	B	N/A	5/5
	KDIZ	AM	1570	April 2021	B	N/A	4.0/0.22
	WWTC	AM	1280	April 2021	B	N/A	10/15
	KYCR	AM	1440	April 2021	B	N/A	5/0.5
San Diego, CA	KPRZ	AM	1210	December 2021	B	N/A	20/10
	KCBQ	AM	1170	December 2021	B	N/A	50/2.9
Tampa, FL	WTWD	AM	910	February 2020	B	N/A	5/5
	WTBN	AM	570	February 2020	B	N/A	5/5
	WLCC	AM	760	February 2020	B	N/A	10/1
	WWMI	AM	1380	February 2020	B	N/A	9.8/6.5
	WGUL	AM	860	February 2020	B	N/A	5/1.5
Denver-Boulder, CO	KRKS	FM	94.7	April 2021	C	984	100
	KRKS	AM	990	April 2021	B	N/A	6.5/0.39
	KNUS	AM	710	April 2021	B	N/A	5/5
	KBJD	AM	1650	April 2021	B	N/A	10/1
	KDMT	AM	1690	April 2021	B	N/A	10/1
Portland, OR	KPDQ	FM	93.9	February 2022	C1	1,270	52
	KPDQ	AM	800	February 2022	B	N/A	1/0.5
	KFIS	FM	104.1	February 2022	C2	1,266	6.9
	KRYP	FM	93.1	February 2022	C3	1,270	1.6
	KDZR	AM	1640	February 2022	B	N/A	10/1
St. Louis, MO	WSDZ	AM	1260	December 2020	B	N/A	20/5
	KXFN	AM	1380	February 2021	B	N/A	5/1
Riverside-San Bernardino, CA	KTIE	AM	590	December 2021	B	N/A	2.5/0.96
San Antonio, TX	KSLR	AM	630	August 2021	B	N/A	5/4.3
	KLUP	AM	930	August 2021	B	N/A	5/1
	KRDY	AM	1160	August 2021	B	N/A	10/1
Sacramento, CA	KFIA	AM	710	December 2021	B	N/A	25/1
	KTKZ	AM	1380	December 2021	B	N/A	5/5
	KSAC	FM	105.5	December 2021	B1	1,010	2.55
	KKFS	FM	103.9	December 2021	A	328	6
Pittsburgh, PA	WORD	FM	101.5	August 2022	B	535	43
	WPIT	AM	730	August 2022	D	N/A	5/0.024
	WPGP	AM	1250	August 2022	B	N/A	5/5
Orlando, FL	WORL	AM	660	February 2020	B	N/A	3.5/1
	WTLN	AM	950	February 2020	B	N/A	12/5
	WBZW	AM	1520	February 2020	B	N/A	5/0.35
	WDYZ	AM	990	February 2020	B	N/A	50/14
Cleveland, OH	WHKW	AM	1220	October 2020	B	N/A	50/50
	WFHM	FM	95.5	October 2020	B	620	31
	WHK	AM	1420	October 2020	B	N/A	5/5

Columbus, OH	WRFD	AM	880	October 2020	D	N/A	23
	WTOH	FM	98.9	October 2020	A	505	2.6
Nashville, TN	WBOZ	FM	104.9	August 2020	A	328	6
	WFFH	FM	94.1	August 2020	A	453	3.2
	WFFI	FM	93.7	August 2020	A	755	1.15
Louisville, KY	WFIA	FM	94.7	August 2020	A	394	3.3
	WGTK	AM	970	August 2020	B	N/A	5/5
	WFIA	AM	900	August 2020	D	N/A	0.93/0.162

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Market(1)	Station Call Letters	Frequency	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day/Night
Greenville, SC	WGTK	FM	94.5	December 2019	C	1,490	100
	WRTH	FM	103.3	December 2019	A	479	2.7
	WLTE	FM	95.9	December 2019	A	233	6
Honolulu, HI	KAIM	FM	95.5	February 2022	C	1,854	100
	KGU	AM	760	February 2022	B	N/A	10/10
	KHCM	AM	880	February 2022	B	N/A	2/2
	KHCM	FM	97.5	February 2022	C1	46	80
	KGU	FM	99.5	February 2022	C	1,965	100
	KKOL	FM	107.9	February 2022	C	1,965	100
	KHNR	AM	690	February 2022	B	N/A	10/10
Sarasota-Bradenton, FL	WLSS	AM	930	February 2020	B	N/A	5/3
Little Rock, AR	KDIS	FM	99.5	June 2020	A	312	6
	KKSP	FM	93.3	June 2020	C3	699	22
	KDXE	FM	101.1	June 2020	A	876	0.85
	KZTS	AM	1380	June 2020	B	N/A	5/2.5
Colorado Springs, CO	KGFT	FM	100.7	April 2021	C	2,218	78
	KBIQ	FM	102.7	April 2021	C	2,280	72
	KZNT	AM	1460	April 2021	B	N/A	5/0.5
Oxnard-Ventura, CA	KDAR	FM	98.3	December 2021	B1	1,289	1.5
Youngstown-Warren, OH	WHKZ	AM	1440	October 2020	B	N/A	5/5
Warrenton, Virginia	WRCW	AM	1250	October 2019	D	N/A	3/0.125

Radio station KNTS-AM is an expanded band station paired with station KLFE-AM in the Seattle, WA market, and station KBJD-AM is an expanded band station paired with KRKS-AM in the Denver, CO market. We are operating these four stations pursuant to FCC licenses or other FCC authority pending resolution by the FCC of the issue of AM expanded band dual operating authority. Depending upon how the FCC resolves that issue, it is possible that we will be required to surrender one station license in each station pair. Except for these stations, we are not currently aware of any facts that would prevent the timely renewal of our licenses to operate our radio stations, although there can be no assurance that our licenses will be renewed.

The following table sets forth information with respect to each of our radio stations FM translators for which we are the licensee and/or operate:

Market	Station Call Letters	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day	Power (in Kilowatts) Night
Boston	W262CV (WROL)	100.3	4/1/2022	D	164	0.25	0.25
Cleveland	W245CY (WHKW)	96.9	10/1/2020	D	520	0.005	0.005

Cleveland	W273DG (WHK)	102.5	10/1/2020	D	520	0.005	0.005
Cleveland	W298CX (WHKZ)	107.5	TBD	D	1,140	0.075	0.075
Colorado Springs	K266CK (KZNT)	101.1	4/1/2021	D	(191)	0.099	0.099
Columbus	W240CX (WTOH)	95.9	10/1/2020	D	696	0.99	0.99
Columbus	W283CL (WRFD)	104.5	10/1/2020	D	545	0.25	0.25
Dallas-Ft. Worth	K273BJ (KLTY-FM, formerly KTNO)	102.5	8/1/2021	D	434	0.25	0.25
Detroit	W224CC (WLQV)	92.7	10/1/2020	D	924	0.099	0.099
Detroit	W268CN (WDTK)	101.5	10/1/2020	D	914	0.099	0.099
Greenville	W245CH (WGTK-FM)	96.9	12/1/2019	D	1,364	0.25	0.25
Greenville	W275BJ (WGTK-FM)	102.9	12/1/2019	D	1,390	0.25	0.25
Honolulu	K232FL (KHNR)	94.3	2/1/2022	D	204	0.25	0.25

Market	Station Call Letters	Operating Frequency	Expiration Date of License	FCC Class	Height Above Average Terrain (in feet)	Power (in Kilowatts) Day	Power (in Kilowatts) Night
Honolulu	K236CR (KGU-AM)	95.1	2/1/2022	D	204	0.25	0.25
Houston	K241CM (KTEK)	96.1	8/1/2021	D	542	0.25	0.25
Houston	K277DE (KNTH)	103.3	8/1/2021	D	514	0.25	0.25
Little Rock	K288EZ (KZTS)	105.5	6/1/2020	D	332	0.25	0.25
Little Rock	K277DP (KZTS)	103.3	6/8/2021	D	322	0.25	0.25
Louisville	W297BV (WFIA)	107.3	8/1/2020	D	286	0.25	0.25
Miami	W270CV (WOCN)	101.9	2/1/2020	D	531	0.25	0.25
Miami	W249DM (WKAT)	97.7	2/1/2020	D	527	0.25	0.25
Minneapolis	K298CO (WWTC)	107.5	4/1/2021	D	176	0.25	0.25
New York	W272DX (WMCA)	102.3	TBD	D	585	0.25	0.25
Orlando	W268CT (WDYZ)	101.5	2/1/2020	D	323	0.25	0.25
Orlando	W288CJ (WORL)	105.5	2/1/2020	D	440	0.25	0.25
Orlando	W235CR (WTLN)	94.9	2/1/2020	D	434	0.225	0.225
Orlando	W264DU (WBZW)	100.7	TBD	D	328	0.25	0.25
Pittsburgh	W223CS (WPGP)	92.5	8/1/2022	D	455	0.11	0.11
Pittsburgh	W243BW (WPIT)	96.5	8/1/2022	D	466	0.25	0.25
Portland	K292HH(formerly K294CP) (KPDQ)	106.3	2/1/2022	D	1,150	0.099	0.099
Sacramento	K289CT (KFIA)	105.7	TBD	D	291	0.25	0.25
San Diego	K241CT (KCBQ)	96.1	12/1/2021	D	826	0.25	0.25
San Diego	K291CR (KPRZ)	106.1	12/1/2021	D	820	0.25	0.25
San Francisco	K237GZ (KDOW)	95.3	TBD	D	1,263	0.04	0.04
Seattle	K281CQ (KGNW)	104.1	2/1/2022	D	1,248	0.099	0.099
St. Louis	K236CS (WSDZ)	95.1	2/1/2021	D	371	0.099	0.099
St. Louis	K287BY (KXFN)	105.3	2/1/2021	D	371	0.099	0.099
Tampa	W271CY (WTWD)	102.1	2/1/2020	D	271	0.125	0.125
Tampa	W282CI (WLCC)	104.3	2/1/2020	D	335	0.25	0.25
Tampa	W260DM (WWMI)	99.9	TBD	D	491	0.25	0.25
Tampa/Sarasota	W229BR (WLSS)	93.7	2/1/2020	D	212	0.099	0.099
Tampa/Sarasota	W276CR (WLSS)	103.1	2/1/2020	D	315	0.25	0.25
Washington DC	W244EB (WAVA)	96.7	TBD	D	454	25	25

Ownership Matters. The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast license without the prior approval of the FCC. In determining whether to assign, transfer, grant or renew a broadcast license, the FCC considers a number of factors pertaining to the licensee, including compliance with various rules limiting common ownership of media properties, the character of the licensee and those persons holding attributable interests therein, and compliance with the Communications Act s limitation on alien ownership, as well as compliance with other FCC policies, including equal employment opportunity requirements.

FCC rules and policies define the interests of individuals and entities, known as attributable interests, which implicate FCC rules governing ownership of broadcast stations. and other specified mass media entities. Under these rules, attributable interests generally include: (1) officers and directors of a licensee and of its direct and indirect parents; (2) general partners; (3) limited partners and limited liability company members, unless properly insulated from management activities; (4) a 5% or more direct or indirect voting stock interest in a corporate licensee or parent, except that, for a narrowly defined class of passive investors, the attribution threshold is a 20% or more voting stock interest; and (5) combined equity and debt interests in excess of 33% of a licensee s total asset value, if the interest holder provides over 15% of the licensee station s total weekly programming, or has an attributable same-service (radio or television) broadcast or newspaper interest in the same market (the

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EDP Rule). An entity that owns one or more radio stations in a market and programs more than 15% of the broadcast time or sells more than 15% per week of the advertising time on a radio station in the same market is generally deemed to have an attributable interest in that station. Debt instruments, non-voting corporate stock, minority voting stock interests in corporations having a single majority stockholder, and properly insulated limited partnership and limited liability company interests generally are not subject to attribution unless such interests implicate the EDP Rule.

The FCC ownership rules relevant to our business are summarized below. Because of these rules, a purchaser of voting stock of the company that acquires an attributable interest in the company may violate the FCC s rule if it also has an attributable interest in another radio station, depending on the number and location of those radio stations. Such a purchaser also may be restricted in the other companies in which it may invest, to the extent that these investments give rise to an attributable interest. If an attributable stockholder of the company violates any of these ownership rules, the company may be unable to obtain from the FCC one or more authorizations needed to conduct its radio station business and may be unable to obtain FCC consents for certain future acquisitions.

Foreign Ownership: Under the Communications Act, a broadcast license may not be granted to or held by a corporation that has more than one-fifth of its capital stock owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. Under the Communications Act, there are limitations on the licensee of a broadcast license, that is held by any corporation that is controlled, directly or indirectly, by any other corporation more than one-fourth of whose capital stock is owned or voted by aliens or their representatives, by foreign governments or their representatives, or by non-U.S. corporations. These restrictions apply in modified form to other forms of business organizations, including partnerships. We therefore may be restricted from having more than one-fourth of our stock owned or voted by aliens, foreign governments or non-U.S. corporations, although the FCC will entertain and authorize, on a case-by-case basis and upon a sufficient public interest showing, proposals to exceed the 25% foreign ownership limit in broadcasting holding companies.

Local Radio Ownership: The maximum allowable number of radio stations that may be commonly owned in a market is based on the size of the market. In markets with 45 or more stations, one entity may have an attributable interest in up to eight stations, of which no more than five are in the same radio service (AM or FM). In markets with 30-44 stations, one entity may have an attributable interest in up to seven stations, of which no more than four are in the same service. In markets with 15-29 stations, one entity may have an attributable interest in up to six stations, of which no more than four are in the same service. In markets with 14 or fewer stations, one entity may have an attributable interest in up to five stations, of which no more than three are in the same service, so long as the entity does not have an interest in more than 50% of all stations in the market. To apply these ownership tiers, the FCC relies on Nielsen Metro Survey Areas, where they exist, and a signal contour-overlap methodology where they do not exist. An FCC rulemaking is pending to determine how to define radio markets for stations located outside Nielsen Metro Survey Areas.

The FCC also restricts the number of television stations an entity may own both in local markets and nationwide.

Our current ownership of radio broadcast stations complies with the FCC s multiple ownership rules; however, these rules may limit the number of additional stations that we may acquire in the future in certain of our markets.

Cross-Ownership: FCC rules formerly prohibited an individual or entity from having an attributable interest in either a radio or television station and a daily newspaper located in the same market and limited the common ownership of television and same-market radio stations. The FCC recently adopted an order eliminating these prohibitions, although, as explained below, the order remains subject to pending court appeals.

Proposed Changes: The FCC is required by the Communications Act to review its broadcast ownership rules every four years. In August 2016, the FCC concluded its 2010 and 2014 quadrennial reviews with a decision retaining the local radio ownership rules, the radio-television cross-ownership rule and the prohibition on newspaper-broadcast cross-ownership without significant change. In November 2017, however, the FCC adopted an order reconsidering the August 2016 decision and modifying it in several respects. The November 2017 order did not significantly modify the August 2016 decision with respect to the local radio ownership limits but did adopt a presumptive waiver approach for existing parent markets with multiple embedded markets. Significantly, it eliminated the FCC s previous limits on radio-television cross-ownership and newspaper-broadcast cross-ownership. These rule changes became effective on February 7, 2018, but they are subject to a pending appeal.

In December 2018, the FCC commenced its 2018 quadrennial review of its media ownership regulations. Among other things, the FCC is seeking comment on all aspects of the local radio ownership rule s implementation and whether the current version of the rule remains necessary in the public interest. We can make no determination as to what effect, if any, any such rule changes will have on us.

Federal Antitrust Considerations. The Federal Trade Commission (FTC) and the Department of Justice (DOJ), which evaluate transactions to determine whether those transactions should be challenged under the federal antitrust laws, are also active in their review of radio station acquisitions, particularly where an operator proposes to acquire additional stations in its existing markets.

For an acquisition meeting certain size thresholds, the Hart-Scott-Rodino Improvements Act (HSR Act) and the rules promulgated thereunder require the parties to file Notification and Report Forms with the FTC and the DOJ and to observe specified waiting period requirements before consummating the acquisition. At any time before or after the consummation of a proposed acquisition, the FTC or the DOJ could take such action under the antitrust laws, as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition or seeking divestiture of the business acquired or other assets of the company. The FTC or the DOJ may investigate acquisitions that are not required to be reported under the HSR Act under the antitrust laws before or after consummation. In addition, private parties may under certain circumstances bring legal action to challenge an acquisition under the antitrust laws. The DOJ also has stated publicly that it believes that LMAs and other similar agreements customarily entered into in connection with radio station transfers prior to the expiration of the waiting period under the HSR Act could violate the HSR Act.

We can provide no assurances that our acquisition strategy will not be adversely affected in any material respect by antitrust reviews.

Geographic Financial Information

Our customers are based in various locations throughout the United States. While no one customer currently accounts for 10% or more of our total revenues individually or in the aggregate, our broadcast operating segment is particularly dependent on advertising revenue generated from our Los Angeles and Dallas broadcast markets. Our Los Angeles radio stations generated 14.8% of our total net broadcasting advertising revenue for the year ended December 31, 2018 and 15.4% of our total net broadcasting advertising revenue for the year ended December 31, 2017. Our Dallas radio stations generated 19.6% of our total net broadcasting advertising revenue for the year ended December 31, 2018 and 19.3% of our total net broadcast advertising revenue for the year ended December 31, 2017.

Because substantial portions of our broadcast advertising revenues are derived from our Los Angeles and Dallas markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns in these areas.

Employees

As of February 12, 2019, we employed 1,552 total employees of which 1,173 were full time and 379 were part time. These employees consisted of 1,130 in broadcasting, 146 in digital media, 109 in publishing, and 167 corporate employees. We consider our relations with our employees to be good and none of our employees are covered by collective bargaining agreements.

We employ on-air personalities and we may enter into employment agreements with these on-air personalities in order to protect our interests in these relationships. However, on-air talent may be lost to competitors for a variety of reasons. While we do not believe that the loss of any one of our on-air personalities would adversely affect on our consolidated financial condition and results of operations, the loss of several key on-air personalities combined could adversely affect on our business.

Available Information

Our Internet address is www.salemmedia.com. We make available free of charge on our investor relations website under the heading SEC Filings our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports are available as soon as reasonably practical after we electronically file them or furnish them to the 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.*

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own or lease various properties throughout the United States from which we conduct business. No one physical property is material to our overall business operations. We believe that each of our properties are in good condition and suitable for our operations; however, we continually evaluate opportunities to upgrade our properties. We believe that we will be able to renew existing leases when applicable or obtain comparable facilities, as necessary.

Corporate

Our corporate headquarters are located in Camarillo, California where we own an approximately 46,000 square foot office building.

Broadcasting

We own or lease multiple properties throughout the United States from which we operate radio stations and the related broadcasting facilities. These properties include offices and studios, transmitter locations, antenna sites and tower sites. A radio station studio is typically located in an office in a downtown or business district. Transmitter, antenna and tower sites are located in areas that provide maximum market coverage.

Our SRN™ and SMR offices, Salem Consumer Products, and our Dallas radio stations studios and offices are located in the Dallas, Texas metropolitan area, where we own an approximately 43,000 square foot office building. We also own office buildings in Honolulu, Hawaii; Tampa, Florida; and Orlando, Florida from which our radio stations studios and offices operate. Our national radio network operates from various offices and studios. These studios may be used to generate programming or programming can also be relayed from a remote point of origination. Our network leases satellite transponders used in the delivery of its programming.

We lease certain property from our principal stockholders or trusts and partnerships created for the benefit of the principal stockholders and their families. These leases are described in Note 16 Related Party Transactions in the notes to our Consolidated Financial Statements contained in Item 8 of this annual report on Form 10-K. All such leases have cost of living adjustments. Based upon our management s assessment and analysis of local market conditions for comparable properties, we believe such leases have terms that are as favorable as, or more favorable, to the company than those that would have been available from unaffiliated parties.

Our current lease agreements range from one to twenty years remaining on the lease term.

While none of our owned or leased properties is individually material to our operations, if we were required to relocate any of our broadcast towers, the cost would be significant. Significant costs are due to the moving and reconstruction of the tower as well as the limited number of sites in any geographic area that permit a tower of reasonable height to provide adequate market coverage. These limitations are due to zoning and other land use restrictions, as well as Federal Aviation Administration and FCC regulations.

Digital Media

Our digital media entities operate from office buildings and require additional data storage centers. SWN operates from leased office facilities in Richmond, Virginia and Nashville, Tennessee. Townhall Media operates from a leased facility in Washington D.C. that is shared with our radio stations in that market. Eagle Financial Publications operates from a leased office in Washington D.C. that is shared with our Eagle Wellness employees. Fulfillment of wellness inventory is managed by a third party in New Holland, Pennsylvania. Our current lease agreements range from one to nine years remaining on the lease term.

Publishing

Singing News®, previously Salem Publishing, operates from leased office facilities in Nashville, Tennessee. Salem Author Services operates from leased facilities in Orlando, Florida. Regnery® Publishing operates from leased facilities in Washington, D.C. with inventory fulfillment managed by a third-party in Delran, New Jersey. Our current lease agreements range from one to four years remaining on the lease term.

ITEM 3. 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 adversely affect upon our annual consolidated financial position, results of operations or cash flows.

ITEM 4. MINE AND SAFETY DISCLOSURES.

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our Class A common stock trades on the NASDAQ Global Market® (NASDAQ-NGM) under the symbol SALM. On February 1, 2019, we had approximately 49 stockholders of record (not including the number of persons or entities holding stock in nominee or street name through various brokerage firms) and 20,632,416 outstanding shares of Class A common stock and two stockholders of record and 5,553,696 outstanding shares of Class B common stock. The following table sets forth for the fiscal quarters indicated the range of high and low sale price information per share of the Class A common stock of the company as reported on the NASDAQ-NGM.

	2017				2018			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
High (mid-day)	$ 7.75	$ 8.25	$ 7.45	$ 6.75	**$ 4.80**	**$ 5.80**	**$ 6.25**	**$ 3.64**
Low (mid-day)	$ 6.00	$ 6.60	$ 5.95	$ 3.90	**$ 3.55**	**$ 3.10**	**$ 3.35**	**$ 2.03**

There is no established public trading market for the company s Class B common stock.

DIVIDEND POLICY

Our dividend policy is based upon our Board of Directors current assessment of our business and the environment in which we operate. The actual declaration of any future equity distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. The reduction or elimination of equity distributions may negatively affect the market price of our common stock.

The following table shows the equity distributions that have been declared and paid to all stockholders of record of our Class A and Class B common stock during the years ended December 31, 2018 and 2017.

Announcement Date	Record Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
November 26, 2018	December 7, 2018	December 21, 2018	$0.0650	$1,702
September 5, 2018	September 17, 2018	September 28, 2018	$0.0650	$1,702
May 31, 2018	June 15, 2018	June 29, 2018	$0.0650	$1,701
February 28, 2018	March 14, 2018	March 28, 2018	$0.0650	$1,701
December 7, 2017	December 18, 2017	December 29, 2017	$0.0650	$1,701
September 12, 2017	September 22, 2017	September 29, 2017	$0.0650	$1,701
June 1, 2017	June 16, 2017	June 30, 2017	$0.0650	$1,697
March 9, 2017	March 20, 2017	March 31, 2017	$0.0650	$1,691

While we intend to pay regular quarterly distributions, the actual declaration of such future distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. Any future distributions are likely to be comparable to prior declarations unless there are changes in expected future earnings, cash flows, financial and legal requirements.

Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual equity distributions of approximately $6.8 million in 2019.

Our sole source of cash available for making any future equity distributions is our operating cash flow subject to our 6.75% Senior Secured Notes (Notes) and Asset-Based Revolving Credit Facility (ABL Facility), which contain covenants that restrict the payment of dividends and equity distributions unless certain specified conditions are satisfied.

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UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

General

Salem Media Group, Inc. (Salem) is a domestic multimedia company specializing in Christian and conservative content, with media properties comprising radio broadcasting, digital media, and publishing. Our content is intended for audiences interested in Christian and family-themed programming and conservative news talk. We maintain a website at www.salemmedia.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the SEC. *The information on our website is not a part of or incorporated by reference into this or any other report of the company filed with, or furnished to, the SEC.*

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this annual report on Form 10-K. Our Consolidated Financial Statements are not directly comparable from period to period due to acquisitions and dispositions. Refer to Note 3 of our Consolidated Financial Statements under Item 8 of this annual report on Form 10-K for details of each of these transactions.

Historical operating results are not necessarily indicative of future operating results. Actual future results may differ from those contained in or implied by the forward-looking statements as a result of various factors. These factors include, but are not limited to, risks and uncertainties relating to the need for additional funds to service our debt and to execute our business strategy, our ability to access borrowings under our ABL Facility, reductions in revenue forecasts, our ability to renew our broadcast licenses, changes in interest rates, the timing of, our ability to complete any acquisitions or dispositions, costs and synergies resulting from the integration of any completed acquisitions, our ability to effectively manage costs, our ability to drive and manage growth, the popularity of radio as a broadcasting and advertising medium, changes in consumer tastes, the impact of general economic conditions in the United States or in specific markets in which we do business, industry conditions, including existing competition and future competitive technologies and cancellation, disruptions or postponements of advertising schedules in response to national or world events, our ability to generate revenues from new sources, including local commerce and technology-based initiatives, the impact of regulatory rules or proceedings that may affect our business from time to time, and the future write off of any material portion of the fair value of our FCC broadcast licenses and goodwill,

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Overview

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

We measure and evaluate our operating segments based on operating income and operating expenses that exclude costs related to corporate functions, such as accounting and finance, human resources, legal, tax and treasury. We also exclude costs such as amortization, depreciation, taxes and interest expense when evaluating the performance of our operating segments.

Our principal sources of broadcast revenue include:

- the sale of block program time to national and local program producers;
- the sale of advertising time on our radio stations to national and local advertisers;
- the sale of banner advertisements on our station websites or on our mobile applications;
- the sale of digital streaming advertisements on our station websites or on our mobile applications;
- the sale of advertisements included in digital newsletters;
- fees earned for the creation of custom web pages and custom digital media campaigns for our advertisers through Salem Surround;
- the sale of advertising time on our national network;
- the syndication of programming on our national network;
- product sales and royalties for on-air host materials, including podcasts and programs; and
- other revenue such as events, including ticket sales and sponsorships, listener purchase programs, where revenue is generated from special discounts and incentives offered to our listeners from our advertisers; talent fees for voice-overs or custom endorsements from our on-air personalities and production services, and rental income for studios, towers or office space.

Our principal sources of digital media revenue include:

- the sale of digital banner advertisements on our websites and mobile applications;

- the sale of digital streaming advertisements on websites and mobile applications;
- the support and promotion to stream third-party content on our websites;
- the sale of advertisements included in digital newsletters;
- the digital delivery of newsletters to subscribers;
- the number of video and graphic downloads; and
- the sale and delivery of wellness products.

Our principal sources of publishing revenue include:

- the sale of books and e-books;
- publishing fees from authors;
- the sale of digital advertising on our magazine websites and digital newsletters;
- subscription fees for our print magazine; and
- the sale of print magazine advertising.

In each of our operating segments, the rates we are able to charge for air-time, advertising and other products and services are dependent upon several factors, including:

- audience share;
- how well our programs and advertisements perform for our clients;
- the size of the market and audience reached;

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- the number of impressions delivered;
- the number of advertisements and programs streamed;
- the number of page views achieved;
- the number of downloads completed;
- the number of events held, the number of event sponsorships sold and the attendance at each event;
- demand for books and publications;
- general economic conditions; and
- supply and demand for air-time on a local and national level.

Broadcasting

Our foundational business is radio broadcasting, which includes the ownership and operation of radio stations in large metropolitan markets, our national networks and our national sales firms including Salem Surround. Refer to Item 1. Business of this annual report for a description of our broadcasting operations.

Revenues generated from our radio stations, networks and sales firms are reported as broadcast revenue in our Consolidated Financial Statements included in Item 8 of this quarterly report on Form 10-K. Advertising revenue is recorded on a gross basis unless an agency represents the advertiser, in which case, revenue is reported net of the commission retained by the agency.

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

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

As is typical in the radio broadcasting industry, our second and fourth quarter advertising revenue generally exceeds our first and third quarter advertising revenue. This seasonal fluctuation in advertising revenue corresponds with quarterly fluctuations in the retail advertising industry. Additionally, we experience increased demand for advertising during election years by way of political advertisements. During election years, or even numbered years, we benefit from a significant increase in political advertising revenue over non-election or odd numbered years. Political advertising revenue varies based on the number and type of candidates as well as the number and type of debated issues. Quarterly block programming revenue tends not to vary significantly because program rates are generally set annually and recognized on a per program basis.

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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.

In broadcasting, trade or barter agreements are commonly used to reduce cash expenses by exchanging advertising time for goods or services. We may enter barter agreements to exchange air time or digital advertising for goods or services that can be used in our business or that can be sold to our audience under Listener Purchase Programs. The terms of these barter agreements permit us to preempt the barter air time or digital campaign in favor of customers who purchase the air time or digital campaign for cash. The value of these non-cash exchanges is included in revenue in an amount equal to the fair value of the goods or services we receive. Each transaction must be reviewed to determine that the products, supplies and/or services we receive have economic substance, or value to us. We record barter operating expenses upon receipt and usage of the products, supplies and services, as applicable. We record barter revenue as advertising spots or digital campaigns are delivered, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Barter revenue is recorded on a gross basis unless an agency represents the programmer, in which case, revenue is reported net of the commission retained by the agency. During the year ended December 31, 2018, 97% of our broadcast revenue was sold for cash as compared to 98% during the year ended December 31, 2017.

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

Digital Media

Web-based and digital content continues to be a focus of future development. Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Refer to Item 1. Business of this annual report for a description of each of our digital media websites and operations.

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

The primary operating expenses incurred by our digital media businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses, (iv) royalties, (v) streaming costs, and (vi) cost of goods sold associated with e-commerce sites.

Publishing

Our publishing operations include book publishing through Regnery® Publishing, a print magazine and our self-publishing services. Refer to Item 1. Business of this annual report for a description of each of our publishing operations.

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Revenues generated from this segment are reported as publishing revenue in our Consolidated Statements of Operations included in this annual report on Form 10-K. Publishing revenue is impacted by the retail price of books and e-books, the number of books sold, the number and retail price of e-books sold, the number and rate of print magazine subscriptions sold, the rate and number of pages of advertisements sold in each print magazine, and the number and rate at which self-published books are published. Regnery® Publishing revenue is impacted by elections as it generates higher levels of interest and demand for publications containing conservative and political based opinions.

The primary operating expenses incurred by our Publishing businesses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as rent and utilities, (iii) marketing and promotional expenses; and (iv) cost of goods sold that includes printing and production costs, fulfillment costs, author royalties and inventory reserves.

Known Trends and Uncertainties

Broadcast revenue growth remains challenged, which we believe is due to several factors, including increasing competition from other forms of content distribution and time spent listening by audio streaming services, podcasts and satellite radio. This increase in competition and mix of radio listening time may lead advertisers to conclude that the effectiveness of radio has diminished. To minimize the impact of these factors, we continue to enhance our digital assets to complement our broadcast content. The increase use of voice activated platforms, or smart speakers, that provide audiences with the ability to access AM and FM radio stations show increased potential for broadcasters to reach audiences.

Our broadcast revenues are particularly dependent on our Los Angeles and Dallas markets, which generated 12.0% and 10.4%, respectively, of our total net broadcasting revenue for the year ended December 31, 2018.

Revenues from print magazines, including advertising revenue and subscription revenues, are challenged both economically and by the increasing use of other mediums that deliver comparable information. Book sales are contingent upon overall economic conditions and our ability to attract and retain authors. Because digital media has been a growth area for us, decreases in digital revenue streams could adversely affect our operating results, financial condition and results of operations. Digital revenue is impacted by the nature and delivery of page views. We have experienced a shift in the number of page views from desktop devices to mobile devices. While mobile page views have increased dramatically, they carry a lower number of advertisements per page which are generally sold at lower rates. Digital media revenue is impacted by page views and the number of advertisements per page. Declines in desktop page views impact revenue as mobile devices carry lower rates and less advertisement per page. To minimize the impact that any one of these areas could have, we continue to explore opportunities to cross-promote our brands and our content, and to strategically monitor costs.

We may from time to time, depending on market conditions and prices, seek to renew or renegotiate lease terms under a blend and extend option that we believe provides us with favorable lease terms over an extended period from five to twenty years. As rent expense is recorded on a straight-line basis over the lease term, we expect our lease expense to increase by approximately $0.6 million over future periods. Actual cash payments for leased properties are expected to remain consistent with annual increases of up to 3% or a percentage of the Consumer Price Index.

Key Financial Performance Indicators Same-Station Definition

In the discussion of our results of operations below, we compare our broadcast operating results between periods on an as-reported basis, which includes the operating results of all radio stations and networks owned or operated at any time during either period and on a Same Station basis. Same Station is a Non-GAAP financial measure used both in presenting our results to stockholders and the investment community as well as in our internal evaluations and management of the business. We believe that Same Station Operating Income provides a meaningful comparison of period over period performance of our core broadcast operations as this measure excludes the impact of new stations, the impact of stations we no longer own or operate, and the impact of stations operating under a new programming format. Our presentation of Same Station Operating Income is not intended to be considered in isolation or as a substitute for the most directly comparable financial measures reported in accordance with GAAP. Our definition of Same Station Operating Income is not necessarily comparable to similarly titled measures reported by other companies Refer to NON-GAAP FINANCIAL MEASURES below for a reconciliation of these non-GAAP performance measures to the most comparable GAAP measures.

We define Same Station net broadcast revenue as net broadcast revenue from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. We define Same Station broadcast operating expenses as broadcast operating expenses from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income includes those stations we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. Same Station Operating Income for a full calendar year is calculated as the sum of the Same Station results for each of the four quarters of that year.

Non-GAAP Financial Measures

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

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

Item 101 of Regulation S-K defines and prescribes the conditions under which certain non-GAAP financial information may be presented in this report. We closely monitor EBITDA, Adjusted EBITDA, Station Operating Income (SOI), Same Station net broadcast revenue, Same Station broadcast operating expenses, Same Station Operating Income, Digital Media Operating Income, and Publishing Operating Income, all of which are non-GAAP financial measures. We believe that these non-GAAP financial measures provide useful information about our core operating results, and thus, are appropriate to enhance the overall understanding of our financial performance. These non-GAAP financial measures are intended to provide management and investors a more complete understanding of our underlying operational results, trends and performance.

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

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

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

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

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

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

Reconciliation of Non-GAAP Financial Measures:

In the tables below, we present a reconciliation of net broadcast revenue, the most comparable GAAP measure, to Same Station net broadcast revenue, and broadcast operating expenses, the most comparable GAAP measure to Same Station broadcast operating expense. We show our calculation of Station Operating Income and Same

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Station Operating Income, which is reconciled from net income, the most comparable GAAP measure in the table following our calculation of Digital Media Operating Income and Publishing Operating Income (Loss). Our presentation of these non-GAAP measures are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

In the table below, we present our calculations of Station Operating Income, Digital Media Operating Income and Publishing Operating Income. Our presentation of these non-GAAP performance indicators are not to be considered a substitute for or superior to the directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Net broadcast revenue	$ 196,197	**$ 198,502**
Less broadcast operating expenses	(145,494)	**(148,614)**
Station Operating Income	$ 50,703	**$ 49,888**
Net digital media revenue	$ 43,096	**$ 42,595**
Less digital media operating expenses	(33,675)	**(33,296)**
Digital Media Operating Income	$ 9,421	**$ 9,299**
Net publishing revenue	$ 24,443	**$ 21,686**
Less publishing operating expenses	(24,475)	**(22,396)**
Publishing Operating (Loss)	$ (32)	**$ (710)**

In the table below, we present a reconciliation of net income, the most directly comparable GAAP measure to Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss). Our presentation of these non-GAAP performance indicators are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Net income (loss)	$ 24,644	**$ (3,192)**
Plus provision for (benefit from) income taxes	(20,870)	**2,473**
Plus net miscellaneous income and expenses	80	**10**
Plus (gain) loss on early retirement of long-term debt	2,775	**(648)**
Plus change in fair value of interest rate swaps	(357)	
Plus interest expense, net of capitalized interest	16,706	**18,328**
Less interest income	(4)	**(5)**

Net operating income	$ 22,974	**$ 16,966**
Less loss on the disposition of assets	3,905	**4,653**
Plus impairment of indefinite-lived long-term assets other than goodwill	19	**2,870**
Less change in the estimated fair value of contingent earn-out consideration	(23)	**76**
Plus depreciation and amortization	16,962	**18,226**
Plus unallocated corporate expenses	16,255	**15,686**
Combined Station Operating Income, Digital Media Operating Income and Publishing Operating (Loss)	$ 60,092	**$ 58,477**
Station Operating Income	$ 50,703	**$ 49,888**
Digital Media Operating Income	9,421	**9,299**
Publishing Operating Income (Loss)	(32)	**(710)**
	$ 60,092	**$ 58,477**

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In the table below, we present a reconciliation of Adjusted EBITDA to EBITDA to Net Income (Loss), the most directly comparable GAAP measure. EBITDA and Adjusted EBITDA are non-GAAP financial performance measures that are not to be considered a substitute for or superior to the most directly comparable measures reported in accordance with GAAP.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Net income (loss)	$ 24,644	**$ (3,192)**
Plus interest expense, net of capitalized interest	16,706	**18,328**
Plus provision for (benefit from) income taxes	(20,870)	**2,473**
Plus depreciation and amortization	16,962	**18,226**
Less interest income	(4)	**(5)**
EBITDA	$ 37,438	**$ 35,830**
Less (gain) loss on the disposition of assets	3,905	**4,653**
Less change in the estimated fair value of contingent earn-out consideration	(23)	**76**
Plus changes the fair value of interest rate swaps	(357)	
Plus impairment of indefinite-lived long-term assets other than goodwill	19	**2,870**
Plus net miscellaneous income and expenses	80	**10**
Plus (gain) loss on early retirement of long-term debt	2,775	**(648)**
Plus non-cash stock-based compensation	1,721	**543**
Adjusted EBITDA	$ 45,558	**$ 43,334**

RESULTS OF OPERATIONS

Year Ended December 31, 2018 compared to the year ended December 31, 2017

The following factors affected our results of operations and our cash flows for the year ended December 31, 2018 as compared to the prior year:

Financing

Based on the then existing market conditions, we completed repurchases of the Notes at amounts less than face value as follows during the year ended December 31, 2018:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
December 21, 2018	$ 2,000	$ 1,835	91.75%	$ 38	$ 127

December 21, 2018	1,850	1,702	92.00%	35	113
December 21, 2018	1,080	999	92.50%	21	60
November 17, 2018	1,500	1,357	90.50%	29	114
May 4, 2018	4,000	3,770	94.25%	86	144
April 10, 2018	4,000	3,850	96.25%	87	63
April 9, 2018	2,000	1,930	96.50%	43	27
	$ 16,430	$ 15,443			

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Acquisitions, Divestitures and Other Transactions

On September 11, 2018, we acquired radio station KTRB-AM in San Francisco for $5.1 million in cash from a related party. We operated the radio station under an LMA that began on June 24, 2016.

On August 28, 2018, we closed on the sale of radio station WQVN-AM (formerly WKAT-AM) in Miami, Florida for $3.5 million in cash.

On August 9, 2018, we acquired the Hilary Kramer Financial Newsletter and related assets valued at $2.0 million and we assumed deferred subscription liabilities valued at $1.5 million. We paid $0.4 million in cash upon closing and may pay up to an additional $0.1 million of contingent earn-out consideration over the next two years based on the achievement of certain revenue benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of the Hilary Kramer Financial Newsletter to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $40,617, which was recorded at the discounted present value of $39,360. The discount will be accreted to interest expense over the two year earn-out period.

On August 7, 2018, we acquired the Just1Word mobile applications and related assets for $0.3 million in cash upon closing. We may pay up to an additional $0.1 million of contingent earn-out consideration over the next two years based on the achievement of certain revenue benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Just1Word to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $12,750, which was recorded at the discounted present value of $12,212. The discount will be accreted to interest expense over the two year earn-out period.

On August 6, 2018, we closed on the sale of radio station KGBI-FM in Omaha, Nebraska for $3.2 million

On July 25, 2018, we acquired radio station KZTS-AM (formerly KDXE-AM) and an FM Translator in Little Rock, Arkansas for $0.2 million in cash. The radio station is currently operated under an LMA agreement with another party and is not reflected in the accompanying Consolidated Statements of Operations.

On July 24, 2018, we acquired the Childrens-Ministry-Deals.com website and related assets for $3.7 million in cash. We paid $3.5 million in cash upon closing and may pay an additional $0.2 million in cash within twelve months from the closing date provided that the seller meet certain post-closing requirements with regard to intellectual property.

On June 25, 2018, we acquired radio station KDXE-FM (formerly KZTS-FM) in Little Rock, Arkansas for $1.1 million in cash. We programmed the station under an LMA as of April 1, 2018.

On June 28, 2018, we closed on the sale of land in Lakeside, California for $0.3 million in cash.

On June 20, 2018, we closed on the sale of radio station WBIX-AM in Boston, Massachusetts for $0.7 million in cash.

On May 24, 2018, we closed on the sale of land in Covina, California for $0.8 million resulting in a $0.2 million pre-tax loss.

On April 30, 2018, we ceased programming radio station KHTE-FM, in Little Rock, Arkansas. We programmed the station under a Time Brokerage Agreement (TBA) beginning on April 1, 2015. We had the option to acquire the station for $1.2 million in cash during the TBA period. We paid the licensee a $0.1 million fee for not exercising our purchase option for the station.

On April 19, 2018, we acquired the HearItFirst.com domain name and related social media assets for $70,000 in cash.

On January 2, 2018, we began programming radio stations KPAM-AM and KKOV-AM in Portland, Oregon under Local Marketing Agreements (LMAs) entered on December 29, 2017, with original terms of up to 12 months. The LMAs terminated on March 30, 2018 when the radio stations were sold to another party. We entered a second LMA with the new owner as of the closing date under which we continue to program radio station KPAM-AM

Net Broadcast Revenue

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Net Broadcast Revenue	$ 196,197	**$ 198,502**	$ 2,305	1.2%	74.4%	**75.5%**
Same Station Net Broadcast Revenue	$ 191,662	**$ 195,151**	$ 3,489	1.8%		

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

	Year Ended December 31,			
	2017		**2018**	
	(Dollars in thousands)			
Block Programming:				
National	$ 48,628	24.8%	**$ 49,864**	**25.1%**
Local	34,942	17.8	**33,274**	**16.8**
	83,570	42.6	**83,138**	**41.9**
Broadcast Advertising:				
National	13,720	7.0	**16,333**	**8.2**
Local	58,413	29.8	**55,863**	**28.2**
	72,133	36.8	**72,196**	**36.4**
Station Digital (local)	7,920	4.0	**9,463**	**4.8**
Infomercials	2,323	1.2	**1,824**	**0.9**
Network	18,112	9.2	**19,293**	**9.7**
Other Revenue	12,139	6.2	**12,588**	**6.3**
Net Broadcast Revenue	$ 196,197	100.0%	**$ 198,502**	**100.0%**

The net decline in block programming revenue of $0.4 million reflects a $1.6 million decline in local programming revenue that was offset by a $1.2 million increase in national programming revenue. Declines in local programming revenue include $0.9 million from WQVN-AM (formerly WKAT-AM) that was operated under an LMA as of December 1, 2017 through the sale of the station on August 28, 2018, and $0.7 million from program cancellations that we believe are due to increased competition from other broadcasters and from the loss of broadcast customers to digital. The increase in national programming revenue includes a $1.2 million increase from our Christian Teaching and Talk format radio stations and a $0.3 million increase from our News Talk format radio stations due to an increase in the number of programmers featured on-air that creates a higher demand for premium time slots. This higher demand for premium time slots often results in realization of higher rates. Annual renewals reflect a low single digit average rate increase with 95% of our programmers renewing. These increases were partially offset by a $0.1 million decline in programming from our Business format radio stations that restrict content to ensure compliance with securities rules and regulations and a $0.2 million decline in programming from all other formats.

Total advertising revenue, net of agency commissions, increased by $63,000 on a consolidated basis, which includes a $1.9 million increase in political advertising as compared to the same period of the prior year. Political revenues reflect the current (even) year election period and are typically not as significant during non-election (odd) years. Excluding political, advertising revenue declined by a net $1.9 million including a $3.6 million decline in local advertising offset by a $1.7 million increase in national advertising. Declines in local advertising, net of political, include a $2.2 million decline from our CCM format radio stations that were largely attributable to declines in the spot rate charged due to competition from other broadcasters that offer lower rates primarily in the Dallas, Atlanta and Los Angeles markets, a $1.1 million decline from our Christian Teaching and Talk format radio stations and $0.1 million from our Business News format radio stations, all reflecting the loss of broadcast advertisers to digital. Additionally, $0.4 million of the decline resulted from the sale of radio station KGBI-FM in Omaha, Nebraska and $0.3 million of the decline resulted from the sale of radio station WQVN-AM in Miami, Florida. These declines in local advertising were offset by a $0.5 million increase from our News Talk format radio stations reflecting the addition of KPAM-AM in Portland, Oregon that we began programming in April of 2018. The $1.7 million increase in national advertising, net of political, includes a $1.5 million increase from our CCM format radio stations primarily in our Dallas and Atlanta markets and a $0.1 million increase from our Christian Teaching and Talk format stations. These increases, particularly from our CCM format stations, reflect the impact of higher ratings achieved in the current year as compared to the prior year that creates an increase in demand for air-time. This increase in demand can result in higher rates.

Local digital revenue, or that which is generated from our radio stations and networks increased $1.5 million, including a $0.5 million increase from our CCM format radio stations, a $0.5 million increase from our News Talk format radio stations and a $0.3 million increase from our Christian Teaching and Talk format stations. During 2018, we launched Salem Surround, a national multimedia advertising agency. We continue to expand our digital product offerings to include social media campaigns, search engine optimization, retargeted advertising and other services to address the move of advertising dollars from broadcast to digital. There were no significant changes in rates as compared to the same period of the prior year.

Declines in infomercial revenue were due to a reduction in the number of infomercials aired with no significant changes in rates as compared to the same period of the prior year. The placement of infomercials can vary significantly from one period to another due to the number of time slots available and the degree to which the infomercial content is considered to be of interest to our audience.

Network revenue increased by $1.2 million of which $1.4 million was due to an increase in political advertising revenue and $0.3 million was generated from donor development campaigns that were offset by a $0.5 million decrease in national advertising revenue due to lower spot rates as a result of higher competition from other national broadcasters and agencies. Political revenues reflect the current (even) year election period and are typically not as significant during non-election (odd) years.

Other revenue increased $0.4 million including a $0.2 million increase in LMA fees associated with radio stations WQVN-AM (formerly WKAT-AM), Miami, Florida, and WBIX-AM, Boston Massachusetts, a $0.2 million increase in sponsorship revenue and a $0.2 million increase in broadcast tower rental fees, offset by a $0.2 million decline in event revenue due to a reduction in the number of events held and a $0.1 million decline in listener purchasing program revenue. Event revenue varies from period to period based on the nature and timing of the events, audience demand, and in some cases, the weather that can affect attendance.

On a Same Station basis, net broadcast revenue increased $3.5 million, which reflects these items net of the impact of stations with acquisitions, dispositions and format changes.

Net Digital Media Revenue

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Net Digital Media Revenue	$ 43,096	**$ 42,595**	$ (501)	(1.2)%	16.3%	**16.2%**

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The following table shows the dollar amount and percentage of national net digital media revenue, or revenue generated from our websites and digital subscriptions, for each digital media revenue source.

	Year Ended December 31,			
	2017		**2018**	
	(Dollars in thousands)			
Digital Advertising, net	$ 24,566	57.0%	**$ 22,351**	**52.5%**
Digital Streaming	4,494	10.4	**4,347**	**10.2**
Digital Subscriptions	6,580	15.3	**8,205**	**19.2**
Digital Downloads	5,027	11.7	**5,354**	**12.6**
e-commerce	2,077	4.8	**1,949**	**4.6**
Other Revenues	352	0.8	**389**	**0.9**
Net Digital Media Revenue	$ 43,096	100.0%	**$ 42,595**	**100.0%**

National digital advertising revenue, net of agency commissions, decreased $2.2 million on a consolidated basis including a $1.8 million decline from SWN and a $1.0 million decline from our conservative opinion websites that was offset by a $0.6 million increase from Eagle Financial Publications including a $0.2 million increase in sales volume and a $0.4 million increase from Traders Crux, that was acquired on July 6, 2017. Declines in national digital advertising were largely attributable to changes in the Facebook newsfeed algorithm that negatively affects both the rate and volume of our page views, a loss of advertisers who moved spending to digital programmatic advertisers, specifically Facebook and Google, and an increase in advertisers deciding to cut or eliminate advertising on conservative websites. Page views from Facebook declined by 28% as compared to the same period of the prior year. We continue to acquire, develop and promote the use of mobile applications, particularly for our Christian mobile applications, to reduce our dependency on page views from digital programmatic advertisers. Acquisitions of mobile applications and digital media assets are discussed in Note 3 of our Consolidated Financial Statements. As mobile page views carry fewer advertisements and typically have shorter site visits, our growth in mobile application generated traffic is larger than our growth in revenue from the mobile applications.

Digital streaming revenue decreased $0.1 million as compared to the same period of the prior year based on lower usage of content available on our Christian websites. There were no significant changes in sales volume or rates as compared to the prior year.

Digital subscription revenue increased by $1.6 million on a consolidated basis including the impact of the August 2017 acquisition of Intelligence Reporter and the August 2018 acquisition of the Hilary Kramer newsletter. SWN s Churchstaffing.com subscription revenue increased by $0.2 million due to increased marketing efforts combined with a re-design of the website. There were no significant changes in subscriber rates as compared to the same period of the prior year.

Digital download revenue increased by $0.3 million due to the acquisition of Childrens-Ministry-Deals.com on July 24, 2018 offset by lower volume of downloads generated from our church product websites, WorshipHouseMedia.com and SermonSpice™.com. There were no changes in significant rates as compared to the same period of the prior year.

E-commerce revenue decreased by $0.1 million as compared to the same period of the prior year. There was a 7% decrease in the number of products sold through our wellness website that was offset by an increase in the average unit price of 3%. The decrease in the number of products sold was due to a reduction in the discounts offered during the period and a lower volume of new customers as compared to the prior year.

Other revenue includes revenue sharing arrangements for mobile applications and mail list rentals. There were no significant changes in volume or rates as compared to the same period of the prior year.

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Net Publishing Revenue

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Net Publishing Revenue	$ 24,443	**$ 21,686**	$ (2,757)	(11.3)%	9.3%	**8.3%**

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

	Year Ended December 31,			
	2017		**2018**	
	(Dollars in thousands)			
Book Sales	$ 18,003	73.7%	**$ 16,864**	**77.8%**
Estimated Sales Returns & Allowances	(4,340)	(17.8)	**(4,998)**	**(23.1)**
E-Book Sales	1,817	7.4	**1,481**	**6.8**
Self-Publishing Fees	5,616	23.0	**5,609**	**25.9**
Print Magazine Subscriptions	1,164	4.8	**907**	**4.2**
Print Magazine Advertisements	744	3.0	**574**	**2.6**
Digital Advertising	723	3.0	**473**	**2.2**
Other Revenue	716	2.9	**776**	**3.6**
Net Publishing Revenue	$ 24,443	100.0%	**$ 21,686**	**100.0%**

The $1.1 million decrease in book sales includes a $0.9 million increase from Regnery® Publishing that was offset by a $2.0 million decrease from Salem Author Services. The $2.0 million decrease from Salem Author Services was due to a reduction in the number of books sold and the phase-out of operations for BookPrinting.com, a small printing-only division of Hillcrest Media, for which our operating margins did not meet our expectations. Regnery® Publishing sales reflect a 6% increase in volume with a 1% decrease in the average price per unit sold. The increase in volume for Regnery® Publishing was primarily from the sale of print books. Print books were sold at heavily discounted prices during the third quarter of this year due to a change in distribution partners under which it was more beneficial to sell books held in inventory with the former distribution partner than to move it to the new distribution partner. We recognized an increase of $0.7 million or 15% in the estimated sales returns and allowances based on the higher volume of print book sales associated with the change in our distribution partner. Book sales through Regnery® Publishing are directly attributable to the number of titles released each period and the composite mix of titles. Revenues can vary significantly based on the book release date and the number of titles that achieve bestseller lists, which can increase awareness and demand for the book.

Regnery® Publishing e-book sales decreased $0.3 million due to a 21% decrease in sales volume. The average price per unit sold was consistent year-over-year. E-book sales vary based on the composite mix of titles released and available in each period. Revenues can vary significantly based on the book release date and the number of titles that achieve bestseller lists, which can increase awareness and demand for the book.

Self-publishing fees was consistent with the same period of the prior year with no notable changes in fees charged to authors.

Declines in print magazine subscription and print magazine advertising revenue are due to the closure of Preaching Magazine, YouthWorker Journal, FaithTalk Magazine and Homecoming The Magazine as of May 2017. Lower demand and distribution levels resulted in corresponding declines in advertising revenues.

Digital adverting revenue decreased $0.2 million primarily due to the transfer of Preaching.com and YouthWorker.com to SWN following the end of print publications for Preaching Magazine and YouthWorker

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Journal and the closure of the Salem Publishing Homecoming website. Sales volume and rates were comparable to the same period of the prior year.

Other revenue includes change fees, video trailers, public-relation services and website revenues. There were no changes in volume or rates as compared to the same period of the prior year.

Broadcast Operating Expenses

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Broadcast Operating Expenses	$ 145,494	**$ 148,614**	$ 3,120	2.1%	55.2%	**56.6%**
Same Station Broadcast Operating Expenses	$ 139,949	**$ 143,698**	$ 3,749	2.7%		

Broadcast operating expenses increased by $3.1 million including a $2.6 million increase in employee-related expenses due to a higher per-employee cost of salary, hourly wages and benefits, a $0.5 million increase in production and programming expenses, $0.4 million increase in costs of sales with higher digital revenues from our consumer products division and a $0.1 million increase in professional services, that was offset by a $0.3 million decrease in music license fees and a $0.2 million decrease in bad debt expense. Rent expense increased by $0.4 million from recognizing rent expense on a straight-line basis over the term due to a number of lease renewals executed during the year. Rental increases were offset with a $0.2 million decline in property tax expenses due to the sale of broadcasting properties during the year. Refer to Note 3 of our Consolidated Financial Statements for details of these sales.

On a same-station basis, broadcast operating expenses increased by $3.7 million. The increase in broadcast operating expenses on a same-station basis reflects these items net of the impact of start-up costs associated with acquisitions, station dispositions and format changes.

Digital Media Operating Expenses

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Digital Media Operating Expenses	$ 33,675	**$ 33,296**	$ (379)	(1.1)%	12.8%	**12.7%**

Digital media operating expense declined by $0.4 million due to a $1.0 million decrease in employee-related expenses from a reduction in headcount, a $0.3 million decrease in facility-related expenses, a $0.3 million decrease in royalties, a $0.1 million decrease in streaming and hosting fees and a $0.1 million reduction in sales-based commissions and incentives consistent with lower revenues that were offset by a $0.5 million increase in advertising and promotion expenses, a $0.5 million increase in software fees, a $0.3 million increase in professional services and a $0.1 million increase in bad debt expense.

Publishing Operating Expenses

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Publishing Operating Expenses	$ 24,475	**$ 22,396**	$ (2,079)	(8.5)%	9.3%	**8.5%**

Publishing operating expenses declined by $2.1 million of which $1.4 million was due to a reduction in the consolidated cost of goods sold. Cost of goods sold includes a $1.1 million decrease from a lower sales volume

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for Salem Author Services, a $0.2 million decline due to a reduction in the number of magazine titles published, and a $0.1 million decrease in Regnery® Publishing. The gross profit margin for Regnery® Publishing was 58% for the year ended December 31, 2018 as compared to 54% for the same period of the prior year as revenue growth outpaced expense growth. Regnery® Publishing margins are impacted by the volume of e-book sales, which have higher margins due to the nature of delivery and lack of sales returns and allowances. The gross profit margin for our self-publishing entities was 66% for the year ended December 31, 2018, as compared to 63% for the same period of the prior year due to lower print costs based on sales volume. Additionally, there was a $0.4 million decrease in advertising and promotion expense, a $0.2 million decrease in facility-related expenses, a $0.1 million decrease in employee benefit costs due to lower volume of claims under our health insurance plan and a $0.1 million decline in payroll-related expenses due to reductions in headcount, offset by a $0.2 million increase in travel related expenses associated with publishing conventions and seminars.

Unallocated Corporate Expenses

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Unallocated Corporate Expenses	$ 16,255	**$ 15,686**	$ (569)	(3.5)%	6.2%	**6.0%**

Unallocated corporate expenses include shared services, such as accounting and finance, human resources, legal, tax and treasury, that are not directly attributable to any one of our operating segments. The decrease of $0.6 million includes a $0.9 million reduction in non-cash stock-based compensation and a $0.1 million decrease in professional services offset by a $0.5 million net increase in employee-related expenses. Stock-based compensation expense fluctuates over time based on the vesting period of outstanding awards and the number of awards that actually vest.

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

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Impairment of Indefinite-Lived Long Term Assets Other Than Goodwill	$ 19	**$ 2,870**	$ 2,851	15,005.3%	%	**1.1%**

The impairment charge of $2.9 million for the year ended December 31, 2018 includes $2.8 million of impairments associated with our broadcast licenses and $36,000 of impairments associated with mastheads that were recognized during our annual testing period in the fourth quarter of 2018. The broadcast licenses impairment charge was driven by a decrease in the projected long-term revenue growth rates for the broadcast industry. Based on our review and analysis, we determined that the carrying value of broadcast licenses in Cleveland, Louisville and Portland were impaired. We believe that these decreases are indicative of trends in the industry as a whole and not unique to our company or operations.

The $36,000 masthead impairment charge was driven by decreases in the projected long-term revenue growth rates for the print magazine industry. We believe that these decreases are indicative of trends in the industry as a whole and not unique to our company or operations.

We ceased publishing Preaching Magazine, YouthWorker Journal, FaithTalk Magazine and Homecoming The Magazine upon issuance of the May 2017 publication due to operating results that did not meet our expectations. We performed impairment tests as of March 31, 2017 due to the likelihood at that time that these print magazines would be sold or otherwise disposed of. Due to reductions in forecasted operating cash flows and indications of interest from potential buyers, we recorded an impairment charge of $19,000 associated with mastheads during the period ended March 31, 2017.

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Depreciation Expense

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Depreciation Expense	$ 12,369	**$ 12,034**	$ (335)	(2.7)%	4.7%	**4.6%**

Depreciation expense decreased $0.3 million compared to the same period of the prior year. The decrease reflects the impact of capital expenditures made in prior years associated with data processing equipment and computer software that have shorter estimated useful lives than towers and broadcast assets and are fully depreciated as of the current year. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Amortization Expense	$ 4,593	**$ 6,192**	$ 1,599	34.8%	1.7%	**2.4%**

Amortization expense increased by $1.6 million compared to the same period of the prior year due to the acquisitions of Trader s Crux in July 2017 and Intelligence Report and TeacherTube.com in August 2017, Childrens-Ministry-Deals.com in July 2018 and Hilary Kramer newsletter in August 2018, that were partially offset by reductions in the amortization of intangible assets acquired with Mill City Press that are now fully amortized. There were no changes in our amortization methods or the estimated useful lives of our intangible asset groups.

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

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	$ (23)	**$ 76**	$ 99	(430.4)%	%	%

Acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. We review the probabilities of possible future payments to estimate the fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results of the acquired business increase or decrease as compared to our estimates and assumptions, the estimated fair value of the contingent earn-out consideration liability will increase or decrease, up to the contracted limit, as applicable. Refer to Note 4 of our Consolidated Financial Statements for a detailed analysis of the changes in our assumptions and the impact for each contingency.

Changes in the estimated fair value of the contingent earn-out consideration are reflected in our results of operations in the period in which they are identified. Changes in the estimated fair value of the contingent earn-out consideration may materially impact and cause volatility in our operating results.

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Net (Gain) Loss on the Disposition of Assets

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Net (Gain) Loss on the Disposition of Assets	$ 3,905	**$ 4,653**	**$ 748**	19.2%	1.5%	**1.8%**

The net loss on the disposition of assets of $4.7 million for the year ended December 31, 2018 includes a $2.4 million pre-tax loss on the sale of radio station KGBI-FM in Omaha, Nebraska, a $1.8 million pre-tax loss on the sale of radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska, a $0.3 million pre-tax loss on the sale of land in Lakeside, California, and a $0.2 million pre-tax loss on the sale of land in Covina, California offset by a $0.2 million pre-tax gain from the sale of radio station WBIX-AM in Boston, Massachusetts.

The net loss on the disposition of assets of $3.9 million for the year ended December 31, 2017 includes a $4.7 million estimated loss on the sale of WQVN-AM (formerly WKAT-AM) in Miami, Florida, a $77,000 loss related to transmitter equipment in Dallas, Texas and a $2,000 net loss for equipment damaged in our Tampa, Florida market from hurricane Irma that was offset by a $0.5 million gain on sale of a former transmitter site in our Dallas, Texas market, a $0.4 million gain on the sale of the WSPZ-AM tower site in Washington DC, and a $16,000 net gain from disposals within our print magazine segment.

Other Income (Expense)

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Interest Income	$ 4	**$ 5**	$ 1	25.0%	%	%
Interest Expense	(16,706)	**(18,328)**	(1,622)	9.7%	(6.3)%	(7.0)%
Change in the Fair Value of Interest Rate Swap	357		(357)	(100.0)%	0.1%	%
Gain (Loss) on Early Retirement of Long-Term Debt	(2,775)	**648**	3,423	123.4%	(1.1)%	0.2%
Net Miscellaneous Income and (Expenses)	(80)	**(10)**	70	87.5%	%	%

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

Interest expense includes interest due on outstanding debt balances, interest due on our swap agreement prior to the termination of the agreement in May 2017, and non-cash accretion associated with deferred installments and contingent earn-out consideration from certain acquisitions. The increase of $1.6 million reflects the Notes and ABL Facility outstanding during the year ended December 31, 2018 as compared to the Term Loan B and Revolver that were outstanding through May 19, 2017 of the prior year. Future changes in interest rates will not impact our fixed rate Notes, but an increase in interest rates may impact the variable rate at which we can borrow under our ABL Facility and result in higher interest charges.

The $0.4 million decline in the fair value of interest rate swap reflects the mark-to-market adjustments to our swap agreement prior to its termination on May 19, 2017.

The gain in 2018 on the early retirement of long-term debt reflects $16.4 million of repurchases of the Notes at prices below face value resulting in a pre-tax gain of $0.6 million. The loss on early retirement of long-term debt for the same period of the prior year reflects $0.6 million of the unamortized discount and $1.5 million of unamortized debt issuance costs associated with the payoff and termination of the Term Loan B on May 19, 2017, $0.1 million of unamortized debt issuance costs associated with the Revolver terminated on May 19, 2017, and a $0.6 million loss to exit and terminate our swap agreement on May 19, 2017.

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Net miscellaneous income and expenses includes miscellaneous receipts such as usage fees for real estate properties and miscellaneous expenses. During the year ended December 31, 2018, we paid a contract termination fee of $0.1 million for not exercising our option right to purchase radio station KHTE-FM in Little Rock, Arkansas. This was offset by insurance proceeds associated with hurricane Irma in Tampa, Florida market. During the year ended December 31, 2017, we recorded a loss of $78,000 on an investment.

Provision for (Benefit from) Income Taxes

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Provision for (Benefit from) Income Taxes	$ (20,870)	**$ 2,473**	$ 23,343	111.8%	(7.9)%	**0.9%**

We recognized a provision for income taxes of $2.5 million for the year ended December 31, 2018 compared to a tax benefit of $20.9 million in the same period of the prior year. During the 2018 calendar year, we sold groups of assets constituting various radio station business lines that resulted in a decrease in sales apportioned to various states. As a result of the sale of the various radio station business lines coupled with the implementation of the Tax Cuts and Jobs Act of 2017 (Act), the change in our provision for income taxes of $23.3 million accounts for the $20.5 million impact of the above Act during December 31, 2017 and a $2.8 million impact from the revaluation of the state net operating loss tax attributes as a result of the sale of various group assets along with current year state minimum taxes. A pretax loss of $0.7 million was recognized for calendar year 2018 compared to pre-tax income of $3.8 million for calendar year 2017. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was (343.9)% for the year ended December 31, 2018 compared to (553.0)% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 21.0% due to the effect of the sale of business assets in various states, 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)

	Year Ended December 31,					
	2017	**2018**	Change $	Change %	2017	**2018**
	(Dollars in thousands)				% of Total Net Revenue	
Net Income (Loss)	$ 24,644	**$ (3,192)**	$ (27,836)	(113.0)%	9.3%	**(1.2)%**

We recognized a net loss of $3.2 million compared to net income of $24.6 million during the same period of the prior year. The change in net income (loss) was attributable to the reasons described above.

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:

- revenue recognition,

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

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

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

Revenue Recognition

Significant management judgments and estimates must be made in connection with determining the amount of revenue to be recognized in any accounting period. We must assesses the promises within each sales contract to determine if they are distinct performance obligations. Once the performance obligation(s) are determined, the transaction price is allocated to the performance obligation(s) based on a relative standalone selling price basis. If a sales contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price. If the stand-alone selling price is not determinable, an estimate is used.

A growing source of revenue is generated from digital product offerings, which allow for enhanced audience interaction and participation, and integrated digital advertising solutions. When offering digital products, another party may be involved in providing the goods or services that make up a performance obligation to the customer. These include the use of third-party websites for social media campaigns. We must evaluate if we are the principal or agent in order to determine if revenue should be reported gross as principal or net as agent. In this evaluation, we consider if we obtain control of the specified goods or services before they are transferred to our customer, as well as other indicators such as the party primarily responsible for fulfillment, inventory risk, and discretion in establishing price. The determination of whether we control a specified good or service immediately prior to the good or service being transferred requires us to make reasonable judgments on the nature of each agreement. We have determined that we are acting as principal when we manage all aspects of a social media campaign, including reviewing and approving target audiences, monitoring actual results and making modifications as needed and when we are responsible for delivering campaign results to our customers regardless of the use of a third-party or parties.

Trade and Barter Transactions

In broadcasting, trade or barter agreements are commonly used to reduce cash expenses by exchanging advertising time for goods or services. We may enter barter agreements to exchange air time or digital advertising for goods or services that can be used in our business or that can be sold to our audience under Listener Purchase Programs. The terms of these barter agreements permit us to preempt the barter air time or digital campaign in favor of customers who purchase the air time or digital campaign for cash. The value of these non-cash exchanges is included in revenue in an amount equal to the fair value of the goods or services we receive. Each transaction must be reviewed to determine that the products, supplies and/or services we receive have economic substance, or value to us. We record barter operating expenses upon receipt and usage of the products, supplies and services, as applicable. We record barter revenue as advertising spots or digital campaigns are delivered, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Barter revenue is recorded on a gross basis unless an agency represents the programmer, in which case, revenue is reported net of the commission retained by the agency.

Broadcast Licenses, Goodwill and Other Indefinite-Lived Intangible Assets

Approximately 72% of our total assets at December 31, 2018 consisted of indefinite-lived intangible assets including broadcast licenses, goodwill and mastheads. These indefinite-lived intangible assets originated from acquisitions in which a significant amount of the purchase price was allocated to broadcast licenses and goodwill. We do not amortize indefinite-lived intangible assets, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

Impairment testing requires an estimate of the fair value of our indefinite-lived intangible assets. We believe that these estimates of fair value are critical accounting estimates as the value is significant in relation to our total assets and the estimates incorporate variables and assumptions based on our experiences and judgment about our future operating performance. Fair value measurements 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 used in our estimates, we are subject to future impairment charges, the amount of which may be material. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures* as Level 3 inputs discussed in Note 12 of our Financial Statements and Supplementary Data.

The first step of our impairment testing is to perform a qualitative assessment as to whether it is more likely than not that an indefinite-lived intangible asset is impaired. This qualitative assessment requires significant judgment when considering the events and circumstances that may affect the estimated fair value of our indefinite-lived intangible assets. These events and circumstances are not all-inclusive and are not by themselves indicators of impairment. We consider external and internal factors when reviewing the following events and circumstances, which are presented in the order of what we believe to be the strongest to weakest indicators of impairment:

(1) the difference between any recent fair value calculations and the carrying value;

(2) financial performance, such as station operating income, including performance as compared to projected results used in prior estimates of fair value;

(3) macroeconomic economic conditions, including limitations on accessing capital that could affect the discount rates used in prior estimates of fair value;

(4) industry and market considerations such as a declines in market-dependent multiples or metrics, a change in demand, competition, or other economic factors;

(5) operating cost factors, such as increases in labor, that could have a negative effect on future expected earnings and cash flows;

(6) legal, regulatory, contractual, political, business, or other factors;

(7) other relevant entity-specific events such as changes in management or customers; and

(8) any changes to the carrying amount of the indefinite-lived intangible asset.

If it is more likely than not that an impairment exists, we are required to perform a second step to preparing a quantitative analysis to estimate the fair or enterprise value of the assets. We did not find reconciliation to our current market capitalization meaningful in the determination of our enterprise value given current factors that impact our market capitalization, including but not limited to: limited trading volume, the impact of our publishing segment operating losses and the significant voting control of our Chairman and Chief Executive Officer. We engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value as part of our quantitative review.

If the results of our quantitative analysis indicate that the fair value of a reporting unit is less than its carrying value, an impairment is recorded equal to the amount by which the carrying value exceeds the estimated fair value.

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

Broadcast Licenses Impairment Testing

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

The first step of our impairment testing is to perform a qualitative assessment as to whether it is more likely than not that an indefinite-lived intangible asset is impaired. This qualitative assessment requires significant judgment when considering the events and circumstances that may affect the estimated fair value of our indefinite-lived intangible assets. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

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

Next, we review the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income (SOI) defined as net broadcast revenue less broadcast operating expenses. See Item 6 Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and an analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value. Markets with an SOI multiple of 4 or less, which have had no significant changes in the prior year assumptions and key estimates, are not likely to be impaired.

The second step of our impairment testing is to perform a qualitative assessment if we have indication that the fair value of a reporting unit may be less than its carrying value. The qualitative review includes markets that were not valued in the prior year as there is no basis to calculate the excess carrying value. We engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value as part of this quantitative review.

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

The primary assumptions used in the Greenfield Method are:

(1) gross operating revenue in the station s designated market area;

(2) normalized market share;

(3) normalized profit margin;

(4) duration of the ramp-up period to reach normalized operations, (which was assumed to be three years),

(5) estimated start-up costs (based on market size);

(6) ongoing replacement costs of fixed assets and working capital;

(7) the calculations of yearly net free cash flows to invested capital; and

(8) amortization of the intangible asset, or the broadcast license.

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

Broadcast Licenses	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	9.0%	**9.0%**
Operating profit margin ranges	(13.9%) - 30.8%	**4.4% - 34.5%**
Long-term revenue growth rates	1.9%	**0.5% - 1.2%**

The risk-adjusted discount rate reflects the Weighted Average Cost of Capital (WACC) developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

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Goodwill Impairment Testing

When performing our annual impairment testing for goodwill, the fair value of each applicable accounting unit is estimated using a discounted cash flow analysis, which is a form of the income approach. The discounted cash flow analysis utilizes a five to ten year projection period to derive operating cash flow projections from a market participant view. We make certain assumptions regarding future revenue growth based on industry market data, historical performance and our expectations of future performance. We also make assumptions regarding working capital requirements and ongoing capital expenditures for fixed assets. Future net free cash flows are calculated on a debt free basis and discounted to present value using a risk adjusted discount rate. The terminal year value is calculated using the Gordon constant growth method and long-term growth rate assumptions based on long-term industry growth and GDP inflation rates. The resulting fair value estimates, net of any interest bearing debt, are then compared to the carrying value of each reporting unit s net assets. Goodwill impairment testing may also use a cost approach, or the stick value of an entity or underlying assets. The stick value of a broadcast entity typically includes the carrying value of FCC licenses, tangible assets and working capital.

The first step of our impairment testing is to perform a qualitative assessment to determine if events and circumstances have occurred that indicate it is more likely than not that the fair value of the assets, including goodwill, are less than their carrying values. We review the significant inputs used in our prior year fair value estimates to determine if any changes to those inputs should be made. We estimate the fair value using a market approach and compare the estimated fair value of each entity to its carrying value, including goodwill. Under the market approach, we apply a multiple of four to each entities operating income to estimate the fair value. We believe that a multiple of four is a conservative indicator of fair value as described above.

If the results of our qualitative assessment indicate that the fair value of a reporting unit may be less than its carrying value, we perform a second quantitative review of the reporting unit. We engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value as part of this quantitative review.

Goodwill Broadcast Markets

The unit of accounting we use to test goodwill associated with our radio stations is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. 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. Seventeen of our 33 market clusters have goodwill associated with them as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Broadcast Markets Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	9.0%	**9.0%**
Operating profit margin ranges	(7.8%) - 36.2%	**(4.1%) - 45.1%**
Long-term revenue growth rates	1.9%	**0.5% - 1.1%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Goodwill Broadcast Networks

The unit of accounting we use to test goodwill in our radio networks is the entity level, which includes Salem Radio Network™ (SRN™), Todays Christian Music (TCM) and Singing News® Radio. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available. One of our networks has goodwill associated with it as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Broadcast Network Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate		**10.0%**
Operating profit margin ranges		**14.8% - 15.7%**
Long-term revenue growth rates		**0.5%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Goodwill Digital Media

The unit of accounting we use to test goodwill in our digital media segment is the entity level, which includes SWN, SWN Spanish, Townhall.com®, Eagle Financial Publications and Newport National Health. The financial statements for SWN include the operating results and cash flows for our Christian content websites and our church product websites. The financial statements for Townhall.com® reflect the operating results for each of our conservative opinion websites. Eagle Financial Publications include our investing websites and related digital publications. The financial statements for Newport National Health include our e-commerce website. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available. Four of our five digital entities have goodwill associated with them as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Digital Media Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate	10.0%	**10.0%**
Operating profit margin ranges	8.0% - 36.0%	**8.5% - 17.2%**
Long-term revenue growth rates	1.9% - 2.0%	**1.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Goodwill Publishing

The unit of accounting we use to test goodwill in our publishing segment is the entity level, which includes Regnery® Publishing, Salem Author Services and *Singing News*®. Regnery® Publishing is a book publisher based in Washington DC that operates from a stand-alone facility under one general manager, with operating results and cash flows of reported at the entity level. Salem Author Services operates from a stand-alone facility in Orlando, Florida under one general manager who is responsible for the operating results and cash flows. Singing News® produces and distributes a print magazine. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available. Two of our publishing entities have goodwill associated with them as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Publishing Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate	10.0%	**10.0%**
Operating margin ranges	5.0% - 5.5%	**4.0% - 5.0%**
Long-term revenue growth rates	1.9%	**1.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Other Indefinite-Lived Intangible Assets Impairment Testing

Mastheads consist of the graphic elements that identify our publications to readers and advertisers. These include customized typeset page headers, section headers, and column graphics as well as other name and identity stylized elements within the body of each publication. We are not aware of any legal, competitive, economic or other factors that materially limit the useful life of our mastheads. We account for mastheads in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize mastheads, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

We test the value of mastheads at the publishing entity level, which is the lowest level for which discrete financial information and cash flows are available and the level reviewed by management to analyze operating results. We print one magazine as of the testing period ended December 31, 2018 for which we have recorded masthead value.

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

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

Mastheads	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	10.0%	**10.0%**
Long-term revenue growth rates	(3.2%) - 0.9%	**(4.0%) - (1.0%)**
Royalty rate	3.0%	**3.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Sensitivity of Key Broadcast Licenses, Goodwill and Other Indefinite-Lived Intangible Assets Assumptions

When estimating the fair value of our broadcasting licenses and goodwill, we make assumptions regarding revenue growth rates, operating cash flow margins and discount rates. These assumptions require substantial judgment, and actual rates and margins may differ materially. We prepared a sensitivity analysis of these assumptions and the hypothetical non-cash impairment charge that would have resulted if our estimates were to change by 100 basis points as of the testing period in the fourth quarter of 2018. The following would be the incremental impact:

	Sensitivity Analysis(1)		
	Increase in Risk-Adjusted Discount Rate	Decrease in Operating Profit Margins	Decrease in Long-Term Revenue Growth Rates
		(Dollars in thousands)	
Incremental broadcast licenses impairment	$ 16,965	$ 5,510	$ 11,569
Incremental goodwill impairment		12	
Incremental Mastheads impairment	48		

(1) Each assumption used in the sensitivity analysis is independent of the other assumptions.

The risk-adjusted discount rate reflects the Weighted Average Cost of Capital (WACC) developed based on data from same or similar industry participants and publicly available market data as of the measurement date. The same discount rate was used for each of our broadcast markets. The discount rate for our digital media and publishing entities was higher given the perceived additional risks associated with the cash flows in these businesses.

Operating profit margin is defined as operating income before interest, depreciation, amortization, income tax and corporate allocation charges divided by net revenue. For the fair value analysis, the projections of operating profit margin that are used are based upon industry expectations. These margin projections are not specific to the performance of our radio stations or segments in a market, but are predicated on the expectation that a new entrant into the market could reasonably be expected to perform at a level similar to a typical competitor. If actual future margins are lower than our estimates, we may recognize future impairment charges, the amount of which may be material.

For the goodwill fair value analysis, the projections of operating margin for each broadcast market and each entity are based on our historical performance. If the future outlook for the broadcast, digital or publishing industry growth declines by more than our estimates, we may recognize future impairment charges, the amount of which may be material.

Long-term revenue growth rates are determined from publicly available information on industry expectations rather than our own estimates, which could differ. Long-term revenue growth rates can vary for each of our broadcast markets. Using industry expectations, each broadcast market, digital and publishing entity s revenues were forecasted over a ten-year projection period to reflect the projected long-term growth rate. If the future outlook for the broadcast, digital or publishing industry growth declines by more than our estimates, we may recognize future impairment charges, the amount of which may be material.

Impairment of Long-Lived Assets

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

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

Business Acquisitions

We account for business acquisitions in accordance with the acquisition method of accounting as specified in FASB ASC Topic 805 *Business Combinations*. The total acquisition consideration is allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. The excess of consideration paid over the estimated fair values of the net assets acquired is recorded as goodwill and any excess of fair value of the net assets acquired over the consideration paid is recorded as a gain on bargain purchase. Prior to recording a gain, the acquiring entity must reassess whether all acquired assets and assumed liabilities have been identified and recognized and perform re-measurements to verify that the consideration paid, assets acquired, and liabilities assumed have been properly valued.

Acquisitions may include contingent earn-out consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts.

A majority of our radio station acquisitions have consisted primarily of the FCC licenses to broadcast in a particular market. We often do not acquire the existing format, or we change the format upon acquisition when we find it beneficial. As a result, a substantial portion of the purchase price for the assets of a radio station is allocated to the broadcast license. Under ASU 2017-01, that was effective on January 1, 2018, a fewer number of our radio station acquisitions will qualify as business acquisitions and instead be accounted for as asset purchases. Asset purchases are recognized based on their cost to acquire, including transaction costs. The cost to acquire an asset group is allocated to the individual assets acquired based on their relative fair value with no goodwill recognized.

We may retain a third-party appraiser to estimate the fair value of the acquired net assets as of the acquisition date. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated fair values to the various asset categories in our financial statements. These fair value estimates are subjective in nature and require careful consideration and judgment. Management reviews the third-party reports for reasonableness of the assigned values. We believe that the purchase price allocations represent the appropriate estimated fair value of the assets acquired and we have not had to modify our purchase price allocations.

We estimate the economic life of each tangible and intangible asset acquired to determine the period of time in which the asset should be depreciated or amortized. A considerable amount of judgment is required in assessing the economic life of each asset. We consider our own experience with similar assets, industry trends, market conditions and the age of the property at the time of our acquisition to estimate the economic life of each asset. If the financial condition of the assets were to deteriorate, the resulting change in life or impairment of the asset could cause a material impact and volatility in our operating results. To date, we have not experienced changes in the economic life established for each major category of our assets.

Contingent Earn-Out Consideration

Our acquisitions often include contingent earn-out consideration as part of the purchase price. The fair value of the contingent earn-out consideration is estimated as of the acquisition date based on the present value of the contingent payments expected to be made using a weighted probability of possible payments. The unobservable inputs used in the determination of the fair value of the contingent earn-out consideration include our own assumptions about the likelihood of payment based on the established benchmarks and discount rates based on our internal rate of return analysis. The fair value measurements includes inputs that are Level 3 measurement as discussed in Note 12 in the notes of our Consolidated Financial Statements contained in Item 8 in this annual report on Form 10-K .

We review the probabilities of possible future payments to the estimated fair value of any contingent earn-out consideration on a quarterly basis over the earn-out period. Actual results are compared to the estimates and probabilities of achievement used in our forecasts. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent earn-out consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent earn-out consideration could cause a material impact and volatility in our operating results. During the year ended December 31 2018, we recognized a net increase of $76,000 to our estimated contingent earn-out liabilities as compared to a net decrease to our estimated contingent earn-out liabilities of $23,000 for the same period of the prior year. The changes in our estimates reflect volatility from variables, such as revenue growth, page views and session time as discussed in Note 4 Contingent Earn-Out Consideration in the notes to our Consolidated Financial Statements contained in Item 8 of this annual report on Form 10-K.

We believe that we have used reasonable estimates and assumptions to calculate the estimated fair value of all remaining contingent earn-out consideration however, these estimates and assumptions are highly judgmental in nature. Actual results can be materially different from estimates and assumptions.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* established a single definition of fair value in generally accepted accounting principles and requires expanded disclosure requirements about fair value measurements. The provision applies to other accounting pronouncements that require or permit fair value measurements. This includes applying the fair value concept to (i) nonfinancial assets and liabilities initially measured at fair value in business combinations; (ii) reporting units or nonfinancial assets and liabilities measured at fair value in conjunction with goodwill impairment testing; (iii) other nonfinancial assets measured at fair value in conjunction with impairment assessments; and (iv) asset retirement obligations initially measured at fair value.

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

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

FASB ASC Topic 820 established a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defined three levels of inputs to the fair value

measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the FASB ASC Topic 820 hierarchy are as follows:

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

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

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

We believe that we have used reasonable estimates and assumptions to calculate the estimated fair value of our financial assets as discussed in Note 12 in the notes to our Consolidated Financial Statements contained in Item 8 of this annual report on Form 10-K.

Contingency Reserves

In the ordinary course of business, we are involved in various legal proceedings, lawsuits, arbitration and other claims that are complex in nature and have outcomes that are difficult to predict. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or the financial impact with respect to these matters. Certain of these proceedings are discussed in Note 14, Commitments and Contingencies, contained in our Consolidated Financial Statements.

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

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

Allowance for Doubtful Accounts

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

Sales Returns and Allowances

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

Inventory Reserves

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

Reserves for Royalty Advances

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

Fair Value of Equity Awards

We account for stock-based compensation under the provisions of FASB ASC Topic 718, *Compensation Stock Compensation*. We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of each award using the Black-Scholes valuation model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the award granted. The exercise price for each award is equal to or greater than the closing market price of Salem Media Group, Inc. common stock as of the date of the award. We use the straight-line attribution method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of the award, deferred tax assets for awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. We have not modified our estimates or assumptions used in our valuation model. We believe that our estimates and assumptions are reasonable and that our stock based compensation is accurately reflected in our results of operations.

Partial Self-Insurance on Employee Health Plan

We provide health insurance benefits to eligible employees under a self-insured plan whereby we pay actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was $0.8 million and $0.7 million at December 31, 2018 and 2017, respectively. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates.

Income Tax Valuation Allowances (Deferred Taxes)

In preparing our consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of audits conducted by tax authorities. Reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities are established if necessary. Although we believe our judgments, assumptions and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the tax implications are known. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

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

For financial reporting purposes, we recorded a valuation allowance of $5.4 million as of December 31, 2018 to offset the deferred tax assets related to the state net operating loss carryforwards.

Income Taxes and Uncertain Tax Positions

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

We review and reevaluate uncertain tax positions on a quarterly basis. Changes in assumptions may result in the recognition of a tax benefit or an additional charge to the tax provision. During the year ended December 31, 2018, we did not recognize liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at December 31, 2018. Our evaluation was performed for all tax years that remain subject to examination, which range from 2014 through 2017. There is currently one tax examination in process. The City of New York began their audit of Salem s 2013 and 2014 tax filings. We do not anticipate any material or significant results from the audit.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 2 to the accompanying financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have been operating cash flow, borrowings under credit facilities and proceeds from the sale of selected assets or businesses. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, and capital expenditures from these sources. 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 assessed the current and expected economic outlook and our current and expected needs for funds and we believe that the borrowing capacity under our current credit facilities allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months, including our working capital deficit at December 31, 2018.

Generally, we keep the balance of cash and cash equivalents low in order to reduce the balance of outstanding debt. Our ABL Facility automatically covers any shortfalls in operating cash flows such that we are not required to hold excess cash balances on hand. Our cash and cash equivalents balance was $0.1 million at December 31, 2018 as compared to $3,000 at December 31, 2017. Our working capital decreased by $13.8 million to ($9.2) million at December 31, 2018 compared to $4.6 million at December 31, 2017 reflecting a $10.6 million increase in the outstanding balance on the ABL Facility, a $3.5 million decrease in assets held for sale, and a $1.4 million increase in accounts payable and accrued expenses including a $0.2 million increase in accrued music license fees, a $0.2 million increase in acquisition-related deferred payments, a $0.1 million increase in accrued legal fees and a $0.1 million increase in third-party marketing costs.

Operating Cash Flows

Our largest source of operating cash inflows are receipts from customers in exchange for advertising and programming. Other sources of operating cash inflows include receipts from customers for digital downloads and streaming, book sales, subscriptions, self-publishing fees, ticket sales, sponsorships, and vendor promotions. A majority of our operating cash outflows consist of payments to employees, such as salaries and benefits, and vendor payments under facility and tower leases, talent agreements, inventory purchases and recurring services such as utilities and music license fees. Our operating cash flows are subject to factors such as fluctuations in preferred advertising media and changes in demand caused by shifts in population, station listenership, demographics, and audience tastes. In addition, our operating cash flows may be affected if our customers are unable to pay, delay payment of amounts owed to us, or if we experience reductions in revenue, or increases in costs and expenses.

Net cash provided by operating activities during the year ended December 31, 2018 decreased by $4.4 million to $23.0 million from $27.4 million during the prior year. The decrease in cash provided by operating activities includes the impact of the following items:

Total net revenue declined by $1.0 million,

Operating expenses exclusive of depreciation, amortization, changes in the fair value of contingent earn-out consideration, and impairments increased by $0.8 million;

Trade accounts receivables, net of allowances, increased by $0.5 million;

Unbilled revenue increased $0.2 million;

Our Day s Sales Outstanding, or the average number of days to collect cash from the date of sale, decreased to 60 days at December 31, 2018 compared to 65 days at December 31, 2018;

Net accounts payable and accrued expenses increased $1.4 million to $19.9 million from $18.5 million as of the prior year including a $0.2 million increase in accrued music license fees, $0.2 million increase in deferred payments, $0.1 million increase in accrued legal fees, and a $0.1 million increase in third party marketing costs; and

Net inventories on hand decreased $53,000 to $677,000 at December 31, 2018 compared to an increase of $0.1 million to $730,000 at December 31, 2017.

Investing Cash Flows

Our primary source of investing cash inflows includes proceeds from the disposition of assets or businesses. Our investing cash outflows include cash payments made to acquire businesses, to acquire property and equipment and to acquire intangible assets such as domain names. While our focus continues to be on deleveraging the company, we remain committed to explore and pursue strategic acquisitions.

In recent years, our acquisition agreements have contained contingent earn-out arrangements that are payable in the future based on the achievement of predefined operating results. We believe that these contingent earn-out arrangements provide some degree of protection with regard to our cash outflows should these acquisitions not meet our operational expectations.

We plan to fund future purchases and any acquisitions from cash on hand, operating cash flow or our credit facilities.

We undertake projects from time to time to upgrade our radio station technical facilities and/or FCC broadcast licenses, expand our digital and web-based offerings, improve our facilities and upgrade our computer infrastructures. The nature and timing of these upgrades and expenditures can be delayed or scaled back at the discretion of management. Based on our current plans, we expect to incur capital expenditures of approximately $7.5 million during 2019.

Net cash used in investing activities during the year ended December 31, 2018 increased $0.4 million to $10.7 million compared to $10.3 million during the prior year. The increase in cash used for investing activities includes:

- Cash paid for acquisitions increased $6.9 million to $10.9 million compared to $4.0 million during the prior year;

- Cash paid for capital expenditures increased $0.8 million to $9.3 million compared to $8.5 million during the prior year;

- We received $9.9 million in proceeds from the sale of radio station WQVN-AM (formerly WKAT-AM) in Miami, Florida, radio station KGBI-FM in Omaha, Nebraska, radio station WBIX-AM in Boston, Massachusetts, radio stations KOTK-AM and KCRO-AM in Omaha, Nebraska, sale of land in Lakeside Valley, California, and the sale of land in Covina, California.

Financing Cash Flows

Financing cash inflows include borrowings under our credit facilities and any proceeds from the exercise of stock options issued under our stock incentive plan. Financing cash outflows include repayments of our credit facilities, the payment of equity distributions and payments of amounts due under deferred installments and contingency earn-out consideration associated with acquisition activity.

During the year ending December 31, 2018, the principal balances outstanding under the Notes and ABL Facility ranged from $249.5 million to $264.0 million. These outstanding balances were ordinary and customary based on our operating and investing cash needs during this time.

Any future equity distributions are likely to be comparable to prior declarations unless there are changes in expected future earnings, cash flows, financial and legal requirements. Based on the number of shares of Class A and Class B common stock currently outstanding we expect to pay total annual equity distributions of approximately $6.8 million in 2019. However, the actual declaration of dividends and equity distributions, as well as the establishment of per share amounts, dates of record, and payment dates are subject to final determination by our Board of Directors and depend upon future earnings, cash flows, financial and legal requirements, and other factors.

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

Net cash used in financing activities during the year ended December 31, 2018 decreased $5.0 million to $12.1 million compared to $17.1 million during the prior year. The decrease in cash used for financing activities includes:

- A $7.0 million decrease in cash paid for debt issuance costs due to the credit agreements entered in the prior year;

- A $2.9 million decrease in the book overdraft to $0.3 million from $3.2 million of the prior year;

- We used $15.4 million of cash to repurchase $16.4 million in face value of the 6.75% Senior Secured Notes; and

- The impact of the $8.0 million net cash used in 2017 to repay the Term Loan B of $263.0 million and issue the Notes for $255.0 million.

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

6.75% Senior Secured Notes

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

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

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

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

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

Based on the balance of the Notes currently outstanding, we are required to pay $15.9 million per year in interest on the Notes. As of December 31, 2018, accrued interest on the Notes was $1.3 million.

We incurred debt issuance costs of $6.3 million that were recorded as a reduction of the debt proceeds that are being amortized to non-cash interest expense over the life of the Notes using the effective interest method. During the years ended December 31, 2018 and 2017, $0.9 million and $0.6 million, respectively, of debt issuance costs associated with the Notes was amortized to interest expense.

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We may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to repurchase the Notes in open market transactions, privately negotiated transactions, by tender offer or otherwise, as market conditions warrant.

Based on the then existing market conditions, we completed repurchases of our 6.75% Senior Secured Notes at amounts less than face value as follows:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
December 21, 2018	$ 2,000	$ 1,835	91.75%	$ 38	$ 127
December 21, 2018	1,850	1,702	92.00%	35	113
December 21, 2018	1,080	999	92.50%	21	60
November 17, 2018	1,500	1,357	90.50%	29	114
May 4, 2018	4,000	3,770	94.25%	86	144
April 10, 2018	4,000	3,850	96.25%	87	63
April 9, 2018	2,000	1,930	96.50%	43	27
	$ 16,430	$ 15,443			

Asset-Based Revolving Credit Facility

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

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

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

The Credit Agreement includes a springing fixed charge coverage ratio of 1.0 to 1.0, which is tested during the period commencing on the last day of the fiscal month most recently ended prior to the date on which Availability (as defined in the Credit Agreement) is less than the greater of 15% of the Maximum Revolver Amount (as defined in the Credit Agreement) and $4.5 million and continuing for a period of 60 consecutive days after the first day on which

Availability exceeds such threshold amount. The Credit Agreement also includes other negative covenants that are customary for credit facilities of this type, including covenants that, subject to exceptions described in the Credit Agreement, restrict the ability of the borrowers and their subsidiaries (i) to incur additional indebtedness; (ii) to make investments; (iii) to make distributions, loans or transfers of assets; (iv) to enter into, create, incur, assume or suffer to exist any liens, (v) to sell assets; (vi) to enter into transactions with affiliates; (vii) to merge or consolidate with, or dispose of all assets to a third party, except as permitted thereby; (viii) to prepay indebtedness; and (ix) to pay dividends.

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

We incurred debt issue costs of $0.7 million that were recorded as an asset and are being amortized to non-cash interest expense over the term of the ABL Facility using the effective interest method. During the years ended December 31, 2018 and 2017, $0.2 million of debt issue costs associated with the Notes was amortized to interest expense. At December 31, 2018, the blended interest rate on amounts outstanding under the ABL Facility was 4.45%.

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

Prior Term Loan B and Revolving Credit Facility

Our prior credit facility consisted of a term loan of $300.0 million (Term Loan B) and a revolving credit facility of $25.0 million (Revolver). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount was amortized to non-cash interest expense over the life of the loan using the effective interest method. For the year ended December 31, 2017, approximately $74,000 of the discount associated with the Term Loan B was amortized to interest expense.

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

The following payments or prepayments of the Term Loan B were made during the year ended December 31, 2017 through the date of the termination, including interest through the payment date as follows:

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

Debt issuance costs were amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For the year ended December 31, 2017 approximately $203,000 of the debt issuance costs associated with the Term Loan B was amortized to interest expense.

Debt issuance costs associated with the Revolver were recorded as an asset in accordance with ASU 2015-15. The costs were amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. For the year ended December 31, 2017, we recorded amortization of deferred financing costs of approximately $26,000.

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Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31,	
	2017	**2018**
	(Dollars in thousands)	
6.75% Senior Secured Notes	$ 255,000	**$ 238,570**
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	(5,774)	**(4,540)**
6.75% Senior Secured Notes net carrying value	249,226	**234,030**
Asset-Based Revolving Credit Facility principal outstanding	9,000	**19,660**
Capital leases and other loans	462	**163**
Long-term debt and capital lease obligations less unamortized debt issuance costs	258,688	**253,853**
Less current portion	(9,109)	**(19,718)**
Long-term debt and capital lease obligations less unamortized debt issuance costs, net of current portion	$ 249,579	**$ 234,135**

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of December 31, 2018:

Outstanding borrowings of $19.7 million under the ABL Facility, with interest spread ranging from 0.50% to 1.00% for base rate borrowings and 1.50% to 2.00% for LIBOR rate borrowings;

$238.6 million aggregate principal amount of Notes with semi-annual interest payments at an annual rate of 6.75%; and

Commitment fee of 0.25% to 0.375% per annum on the unused portion of the ABL Facility.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2018 and December 31, 2017 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt and Capital Lease Obligations

Principal repayment requirements under all long-term debt agreements outstanding at December 31, 2018 for each of the next five years and thereafter are as follows:

For the Year Ended December 31,	Amount (Dollars in thousands)
2019	$ 19,718
2020	39
2021	31
2022	27
2023	8
Thereafter	238,570
	$ 258,393

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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. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year. 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.

During our annual testing in the fourth quarter of 2018, we recognized impairment charges of $2.9 million impairment charge of broadcast licenses and $36,000 impairment of mastheads. We determined that the carrying value of broadcast licenses in three of our market clusters were impaired as of the annual testing period ending December 31, 2018. We recorded an impairment charge of $2.8 million to the value of broadcast licenses in Cleveland, Louisville and Portland. The impairment charge was driven by a decrease in the projected long-term revenue growth rates for the broadcast industry. The masthead impairment charge was driven by decreases in the projected long-term revenue growth rates for the print magazine industry.

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 12.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2018 and 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

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CONTRACTUAL OBLIGATIONS

Not required for smaller reporting companies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of

Salem Media Group, Inc.

Camarillo, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Salem Media Group, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s financial statements and an opinion on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Crowe LLP

We have served as the Company s auditor since 2016.

Sherman Oaks, California

March 12, 2019

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SALEM MEDIA GROUP, INC.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2017	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3	**$ 117**
Trade accounts receivable (net of allowances of $11,019 in 2017 and $9,732 in 2018)	32,545	**33,020**
Unbilled revenue	2,298	**2,513**
Other receivables (net of allowances of $227 in 2017 and $158 in 2018)	820	**806**
Inventories (net of reserves of $1,657 in 2017 and $994 in 2018)	730	**677**
Prepaid expenses	6,824	**6,504**
Assets held for sale	3,500	
Total current assets	46,720	**43,637**
Land held for sale	1,000	
Notes receivable (net of allowance of $759 in 2017 and $733 in 2018)	53	**218**
Property and equipment (net of accumulated depreciation of $164,720 in 2017 and $170,842 in 2018)	99,480	**96,508**
Broadcast licenses	380,914	**376,316**
Goodwill	26,424	**26,789**
Other indefinite-lived intangible assets	313	**277**
Amortizable intangible assets (net of accumulated amortization of $47,179 in 2017 and $53,180 in 2018)	13,104	**11,264**
Deferred financing costs	550	**381**
Deferred income taxes	1,070	
Other assets	3,191	**3,638**
Total assets	$ 572,819	**$ 559,028**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,584	**$ 2,187**
Accrued expenses	9,281	**10,104**
Accrued compensation and related expenses	7,643	**7,582**
Accrued interest	1,445	**1,375**
Contract liabilities	12,763	**11,537**
Deferred rent expense	152	**108**
Income taxes payable	172	**267**
Current portion of long-term debt and capital lease obligations	9,109	**19,718**

Total current liabilities	42,149	**52,878**
Long-term debt and capital lease obligations, less current portion	249,579	**234,135**
Deferred income taxes	34,151	**35,272**
Deferred rent expense, long-term	13,644	**13,431**
Contract liabilities, long-term	1,951	**1,379**
Other long-term liabilities	64	**64**
Total liabilities	341,538	**337,159**
Commitments and contingencies (Note 14)		
Class A common stock, $0.01 par value; authorized 80,000,000 shares; 22,932,451 and 22,950,066 issued and 20,614,801 and 20,632,416 outstanding at December 31, 2017 and 2018, respectively	227	**227**
Class B common stock, $0.01 par value; authorized 20,000,000 shares; 5,553,696 issued and outstanding at December 31, 2017 and 2018, respectively	56	**56**
Additional paid-in capital	244,634	**245,220**
Accumulated earnings	20,370	**10,372**
Treasury stock, at cost (2,317,650 shares at December 31, 2017 and 2018)	(34,006)	**(34,006)**
Total stockholders equity	231,281	**221,869**
Total liabilities and stockholders equity	$ 572,819	**$ 559,028**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year Ended December 31, 2017	Year Ended December 31, 2018
Net broadcast revenue	$ 196,197	**$ 198,502**
Net digital media revenue	43,096	**42,595**
Net publishing revenue	24,443	**21,686**
Total net revenue	263,736	**262,783**
Operating expenses:		
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including $2,196 and $2,142 for the years ended December 31, 2017 and 2018, respectively, paid to related parties)	145,494	**148,614**
Digital media operating expenses, exclusive of depreciation and amortization shown below	33,675	**33,296**
Publishing operating expenses exclusive of depreciation and amortization shown below	24,475	**22,396**
Unallocated corporate expenses, exclusive of depreciation and amortization shown below (including $238 and $198 for the years ended December 31, 2017 and 2018, respectively, paid to related parties)	16,255	**15,686**
Depreciation	12,369	**12,034**
Amortization	4,593	**6,192**
Change in the estimated fair value of contingent earn-out consideration	(23)	**76**
Impairment of indefinite-lived long-term assets other than goodwill	19	**2,870**
Net (gain) loss on the disposition of assets	3,905	**4,653**
Total operating expenses	240,762	**245,817**
Operating income	22,974	**16,966**
Other income (expense):		
Interest income	4	**5**
Interest expense	(16,706)	**(18,328)**
Change in the fair value of interest rate swap	357	
Gain (loss) on early retirement of long-term debt	(2,775)	**648**
Net miscellaneous income and (expenses)	(80)	**(10)**
Income (loss) from operations before income taxes	3,774	**(719)**
Provision for (benefit from) income taxes	(20,870)	**2,473**
Net income (loss)	$ 24,644	**$ (3,192)**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

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

	Year Ended December 31, 2017	Year Ended December 31, 2018
Basic earnings (loss) per share data:		
Basic earnings (loss) per share Class A and Class B common stock	$ 0.94	$ (0.12)
Diluted earnings (loss) per share data:		
Diluted earnings (loss) per share Class A and Class B common stock	$ 0.94	$ (0.12)
Distributions per share Class A and Class B common stock	$ 0.26	$ 0.26
Basic weighted average Class A and Class B shares outstanding	26,068,942	26,179,702
Diluted weighted average Class A and Class B shares outstanding	26,435,757	26,179,702

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Retained Earnings (Accumulated	Treasury	
	Shares	Amount	Shares	Amount	Capital	Deficit)	Stock	Total
Stockholders equity, December 31, 2016	22,593,130	226	5,553,696	56	242,400	2,516	(34,006)	211,192
Stock-based compensation					1,721			1,721
Options exercised	127,663	1			513			514
Lapse of restricted shares	211,658							
Cash distributions						(6,790)		(6,790)
Net income						24,644		24,644
Stockholders equity, December 31, 2017	22,932,451	$ 227	5,553,696	$ 56	$ 244,634	$ 20,370	$ (34,006)	$ 231,281
Stock-based compensation					**543**			**543**
Options exercised	**17,615**				**43**			**43**
Cash distributions						**(6,806)**		**(6,806)**
Net income (loss)						**(3,192)**		**(3,192)**
Stockholders equity, December 31, 2018	**22,950,066**	**$ 227**	**5,553,696**	**$ 56**	**$ 245,220**	**$ 10,372**	**$ (34,006)**	**$ 221,869**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(*Dollars in thousands*)

	Year Ended December 31, 2017	Year Ended December 31, 2018
OPERATING ACTIVITIES		
Net income (loss)	$ 24,644	**$ (3,192)**
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	1,721	**543**
Depreciation and amortization	16,962	**18,226**
Amortization of deferred financing costs	940	**1,114**
Accretion of financing items	74	
Accretion of acquisition-related deferred payments and contingent earn-out consideration	42	**24**
Provision for bad debts	2,196	**2,098**
Deferred income taxes	(20,932)	**2,191**
Impairment of indefinite-lived long-term assets other than goodwill	19	**2,870**
Change in the fair value of interest rate swap	(357)	
Change in the estimated fair value of contingent earn-out consideration	(23)	**76**
Loss on the disposition of assets	3,905	**4,653**
(Gain) loss on early retirement of debt	2,775	**(648)**
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	144	**(2,814)**
Inventories	(60)	**53**
Prepaid expenses and other current assets	(537)	**308**
Accounts payable and accrued expenses	(2,569)	**1,031**
Deferred rent expense	(133)	**(287)**
Contract liabilities	(1,427)	**(3,365)**
Other liabilities	(3)	**(15)**
Income taxes payable	(51)	**95**
Net cash provided by operating activities	27,330	**22,961**
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(8,534)	**(9,267)**
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(50)	**(77)**
Purchases of broadcast assets and radio stations	(2,282)	**(6,534)**
Purchases of digital media businesses and assets	(1,690)	**(4,320)**
Proceeds from sale of assets	2,456	**9,894**
Other	(242)	**(420)**
Net cash used in investing activities	(10,342)	**(10,724)**

FINANCING ACTIVITIES		
Payments under Term Loan B	(263,000)	
Payments to repurchase 6.75% Senior Secured Notes		**(15,443)**
Proceeds from borrowings under Revolver and ABL Facility	89,738	**153,650**
Payments on Revolver and ABL Facility	(81,214)	**(142,990)**
Payment of interest rate swap	(783)	
Proceeds from bond offering	255,000	
Payments of debt issuance costs	(7,035)	**(50)**
Payments of acquisition-related contingent earn-out consideration	(14)	**(140)**
Payments of deferred installments due from acquisition activity	(225)	
Proceeds from the exercise of stock options	514	**43**
Payment of cash distribution on common stock	(6,790)	**(6,806)**
Payments on capital lease obligations	(122)	**(85)**
Book overdraft	(3,184)	**(302)**
Net cash used in financing activities	(17,115)	**(12,123)**
Net increase (decrease) in cash and cash equivalents	(127)	**114**
Cash and cash equivalents at beginning of year	130	**3**
Cash and cash equivalents at end of year	$ 3	**$ 117**

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(*Dollars in thousands*)

	Year Ended December 31, 2017	**2018**
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Cash paid for interest net of capitalized interest	$ 14,237	**$ 17,231**
Cash paid for income taxes, net of refunds	$ 96	**$ 186**
Other supplemental disclosures of cash flow information:		
Barter revenue	$ 5,939	**$ 6,837**
Barter expense	$ 5,675	**$ 6,184**
Non-cash investing and financing activities:		
Capital expenditures reimbursable under tenant improvement allowances	$ 50	**$ 77**
Non-cash capital expenditures for property & equipment acquired under trade agreements	$ 39	**$ 33**
Net assets and liabilities assumed in a non-cash acquisition	$ 2,852	**$**
Deferred payments on acquisitions	$	**$ 275**
Estimated present value of contingent-earn out consideration	$	**$ 52**
Assets acquired under capital lease	$ 16	**$ 154**

See accompanying notes

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SALEM MEDIA GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Description of Business

Salem Media Group, Inc. (Salem we, us, our or the company) is a domestic multimedia company specializing in Christian and conservative content. Our media properties include radio broadcasting, digital media, and publishing entities. We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 19 Segment Data.

The accompanying Consolidated Financial Statements of Salem include the company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

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:

- revenue recognition,
- asset impairments, including broadcasting licenses, goodwill and other indefinite-lived intangible assets;
- probabilities associated with the potential for contingent earn-out consideration;
- fair value measurements;
- contingency reserves;
- allowance for doubtful accounts;
- sales returns and allowances;
- barter transactions;

- inventory reserves;
- reserves for royalty advances;
- fair value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- income tax valuation allowances; and
- uncertain tax positions.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Trade Accounts Receivable and Unbilled Revenue

Trade accounts receivable, net of allowances: Trade accounts receivable includes amounts billed and due from our customers stated at their net estimated realizable value to be settled in cash. Trade accounts receivable for our self-publishing services represent contractual amounts due under individual payment plans that are adjusted quarterly to exclude unearned or cancellable contracts. Payments are generally due within 30 days of the invoice date.

Unbilled revenue: Unbilled revenue represents revenue recognized in excess of the amounts billed to our customer. Unbilled revenue results from differences in the Broadcast Calendar and the end of the reporting period. The Broadcast Calendar is a uniform billing period adopted by broadcasters, agencies and advertisers for billing and planning functions. The Broadcast Calendar uses a standard broadcast week that starts on Monday and ends on Sunday with month end on the last Sunday of the calendar month. We recognize revenue based on the calendar month end and adjust for unbilled revenue when the Broadcast Calendar billings are at an earlier date as applicable. We bill our customers at the end-of-flight, end of the Broadcast Calendar or at calendar month end, as applicable, with standard payments terms of thirty days.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is 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 collection efforts have been exhausted, including use of a collections agency. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected. We do not include extended payment terms in our contracts with customers.

Inventory

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

Inventory Reserves

We record a provision to expense the balance of unsold inventory that we believe to be unrecoverable. We review historical data associated with book and wellness product inventories held by Regnery® Publishing and our e-commerce wellness entities, as well as our own experiences to estimate the fair value of inventory on hand. Our analysis includes a review of actual sales returns, our allowances, royalty reserves, overall economic conditions and product demand. We regularly monitor actual performance to our estimates and make adjustments as necessary.

Estimated inventory reserves may be adjusted, either favorably or unfavorably, if factors such as the historical data we used to calculate these estimates do not properly reflect future returns or as a result of changes in economic conditions of the customer and/or the market. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

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Property and Equipment

We account for property and equipment in accordance with FASB ASC Topic 360-10, *Property, Plant and Equipment*. Property and equipment are recorded at cost less accumulated depreciation. Cost represents the historical cost of acquiring the asset, including the costs necessarily incurred to bring it to the condition and location necessary for its intended use. For assets constructed for our own use, such as towers and buildings that are discrete projects for which costs are separately accumulated and for which construction takes considerable time, we record capitalized interest. The amount capitalized is the cost that could have been avoided had the asset not been constructed and is based on the average accumulated expenditures incurred over the capitalization period at the weighted average rate applicable to our outstanding variable rate debt. We capitalized interest of $0.1 million and $0.2 million during the years ended December 31, 2018 and 2017. Repair and maintenance costs are charged to expense as incurred. Improvements are capitalized if they extend the life of the asset or enhance the quality or ability of the asset to benefit operations. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Category	Estimated Life
Buildings	40 years
Office furnishings and equipment	5-10 years
Antennae, towers and transmitting equipment	10-20 years
Studio, production and mobile equipment	5-10 years
Computer software and website development costs	3 years
Record and tape libraries	3 years
Automobiles	5 years
Leasehold improvements	Lesser of the useful life or remaining lease term

The carrying value of property and equipment is evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and business units for indicators of impairment. When indicators of impairment are present, and the cash flows estimated to be generated from these assets is less than the carrying value, an adjustment to reduce the carrying value to the fair market value of the assets is recorded. See Note 6 Property and Equipment.

Internally Developed Software and Website Development Costs

We capitalize costs incurred during the application development stage related to the development of internal-use software as specified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350-40 *Internal-Use Software*. Capitalized costs are generally depreciated over the estimated useful life of three years. Costs incurred related to the conceptual design and maintenance of internal-use software are expensed as incurred. Website development activities include planning, design and development of graphics and content for new websites and operation of existing sites. Costs incurred that involve providing additional functions and features to the website are capitalized. Costs associated with website planning, maintenance, content development and training are expensed as incurred. We capitalized $2.1 million and $3.7 million during the years ended December 31, 2018, and 2017, related to internally developed software and website development costs. Depreciation expense of amounts capitalized was $2.8 million for each of the years ending December 31, 2018, and 2017.

Broadcast Licenses

We account for broadcast licenses in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. We perform out annual impairment testing during the fourth quarter or each year as discussed in Note 7 Broadcast Licenses.

Goodwill

We account for goodwill in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize goodwill, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year as discussed in Note 8 Goodwill.

Other Indefinite-Lived Intangible Assets

We account for mastheads in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize mastheads, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year as discussed in Note 9 Other Indefinite Lived Intangible Assets.

Amortizable Intangible Assets

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

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

The carrying value of our amortizable intangible assets are evaluated periodically in relation to the operating performance and anticipated future cash flows of the underlying radio stations and businesses for indicators of impairment. In accordance with FASB ASC Topic 360 *Property, Plant and Equipment*, when indicators of impairment are present and the undiscounted cash flows estimated to be generated from these assets are less than the carrying amounts of these assets, an adjustment to reduce the carrying value to the fair market value of these assets is recorded, if necessary. No adjustments to the carrying amounts of our amortizable intangible assets were necessary during the year ended December 31, 2018.

Deferred Financing Costs

Debt issue costs are amortized to non-cash interest expense over the term of the agreement using the effective interest method.

On May 19, 2017, we closed on a private offering of $255.0 million aggregate principal amount of 6.75% senior secured notes due 2024 (the Notes) and concurrently entered into a five-year $30.0 million senior secured asset-based revolving credit facility, which includes a $5.0 million subfacility for standby letters of credit and a $7.5 million subfacility for swingline loans (ABL Facility) due May 19, 2022.

We incurred debt issuance costs of $6.3 million that were recorded as a reduction of the Note proceeds that are being amortized to non-cash interest expense over the life of the Notes using the effective interest method. We incurred debt issue costs of $0.7 million that were recorded as an asset and are being amortized to non-cash interest expense over the term of the ABL Facility using the effective interest method. See Note 11 Long-Term Debt.

Income Tax Valuation Allowances (Deferred Taxes)

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

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

For financial reporting purposes, we recorded a valuation allowance of $5.4 million as of December 31, 2018 to offset the deferred tax assets related to the state net operating loss carryforwards. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. We have calculated the impact of the Act in our year ending December 31, 2018 income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing.

Income Taxes and Uncertain Tax Positions

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

We review and reevaluate uncertain tax positions on a quarterly basis. Changes in assumptions may result in the recognition of a tax benefit or an additional charge to the tax provision. During the years ended December 31, 2018 and 2017, we did not have any material unrecognized tax benefits recorded. Our evaluation was performed for all tax years that remain subject to examination, which range from 2014 through 2017. There is currently one tax examination in process. In August 2017, we received a letter notifying us that the City of New York is initiating an audit of our tax returns for years 2013 and 2014. As of December 31, 2018, we are still currently under audit. We do not anticipate the outcome to be material nor significant.

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Effective Tax Rate

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

(1) changes in the level of income in any of our taxing jurisdictions;

(2) changes in statutes and rules applicable to taxable income in the jurisdictions in which we operate;

(3) changes in the expected outcome of income tax audits;

(4) changes in the estimate of expenses that are not deductible for tax purposes;

(5) income taxes in certain states where the states current taxable income is dependent on factors other than consolidated net income;

(6) the addition of operations in states that on average have different income tax rates from states in which we currently operate; and

(7) the effect of previously reported temporary differences between the and financial reporting bases of assets and liabilities.

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

Business Acquisitions

We account for business acquisitions in accordance with the acquisition method of accounting as specified in FASB ASC Topic 805 *Business Combinations*. The total acquisition consideration is allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. 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. Transactions that do not meet the definition of a business in ASU 2017-01 *Business Combinations (Topic 805) Clarifying the Definition of a Business* are recorded as asset purchases. Asset purchases are recognized based on their cost to acquire, including transaction costs. The cost to acquire an asset group is allocated to the individual assets acquired based on their relative fair value with no goodwill recognized.

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. 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 in Note 12 Fair Value Measurements.

We may retain a third-party appraiser to estimate the fair value of the acquired net assets as of the acquisition date. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated fair values to the various assets acquired. These fair value estimates are subjective in nature and require careful consideration and judgment. Management reviews the third-party reports for reasonableness of the assigned values. We believe that these valuations and analysis provide appropriate estimates of the fair value for the net assets acquired as of the acquisition date.

The initial valuations for business acquisitions are subject to refinement during the measurement period, which may be up to one year from the acquisition date. During this measurement period, we may retroactively record adjustments to the net assets acquired based on additional information obtained for items that existed as of the acquisition date. Upon the conclusion of the measurement period, any adjustments are reflected in our Consolidated Statements of Operations. To date, we have not recorded adjustments to the estimated fair values used in our business acquisition consideration during or after the measurement period.

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment.

Costs associated with business acquisitions, such as consulting and legal fees, are expensed as incurred. We recognized costs associated with acquisitions of $0.2 million during the year ended December 31, 2018 compared to $0.1 million during the year ended December 31, 2017, which are included in unallocated corporate expenses in the accompanying Consolidated Statements of Operations.

Contingent Earn-Out Consideration

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

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

We recorded a net increase to our estimated contingent earn-out liabilities of $76,000 for the year ended December 31, 2018 and a net decrease of $23,000 for the year ended December 31, 2017. The changes in our estimates reflect volatility from variables, such as revenue growth, page views and session time as discussed in Note 4 Contingent Earn-Out Consideration.

Partial Self-Insurance on Employee Health Plan

We provide health insurance benefits to eligible employees under a self-insured plan whereby we pay actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was $0.8 million and $0.7 million at

December 31, 2018 and 2017, respectively. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates.

The following table presents the changes in our partial self-insurance reserves.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Balance, beginning of period	$ 783	**$ 747**
Self-funded costs	9,735	**9,336**
Claims paid	(9,771)	**(9,255)**
Ending period balance	$ 747	**$ 828**

Derivative Instruments

We are exposed to market risk from changes in interest rates. We actively monitor these fluctuations and may use derivative instruments primarily for the purpose of reducing the impact of changing interest rates on our variable rate debt and to reduce the impact of changing fair market values on our fixed rate debt. 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 May 19, 2017, we entered into a new senior credit facility, which is an asset-based revolving credit facility (ABL Facility). The ABL Facility is a five-year $30.0 million (subject to borrowing base) revolving credit facility maturing on May 19, 2022. Amounts outstanding under the ABL Facility bear interest at a rate based on LIBOR plus a spread of 1.50% to 2.0% per annum based on a pricing grid depending on the average available amount for the most recently ended quarter or at the Base Rate (as defined in the Credit Agreement) plus a spread of 0.50% to 1.0% per annum based on a pricing grid depending on the average available amount for the most recently ended quarter. Additionally, we pay a commitment fee on the unused balance of 0.25% to 0.375% per year. If an event of default occurs, the interest rate may increase by 2.00% per annum. Amounts outstanding under the ABL Facility may be paid and then re-borrowed at our discretion without penalty or premium.

As of December 31, 2018, we did not have any outstanding derivative instruments.

Fair Value Measurements and Disclosures

As of December 31, 2018, 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 the ABL approximates fair value as the related interest rates approximate rates currently available to the company. The carrying amount of the Notes at December 31, 2018 was $238.6 million, compared to the estimated fair value of $218.3 million based on the prevailing interest rates and trading activity of our Notes. See Note 12 Fair Value Measurements and Disclosures.

Long-term Debt and Debt Covenant Compliance

Our classification of outstanding borrowings on our Notes as long-term debt on our balance sheet is based on our assessment that, under the Indenture and after considering our projected operating results and cash flows for the coming year, no principal payments are required to be made within the next twelve months. The Notes have a term of seven years, maturing on June 1, 2024. We may redeem the Notes, in whole or in part, at any time on or before June 1, 2020 at a price equal to 100% of the principal amount of the Notes plus a make-whole premium as of, and accrued and unpaid interest, if any, to, but not including, the redemption date. At any time on or after June 1, 2020, we may redeem some or all of the Notes at the redemption prices (expressed as percentages of the principal amount to be redeemed) set forth in the Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. In addition, we may redeem up to 35% of the aggregate principal amount of the Notes before June 1, 2020 with the net cash proceeds from certain equity offerings at a redemption price of 106.75% of the principal amount plus accrued and unpaid interest, if any, to, but not including, the redemption date. We may also redeem up to 10% of the aggregate original principal amount of the Notes per twelve month period before June 1, 2020 at a redemption price of 103% of the principal amount plus accrued and unpaid interest to, but not including, the redemption date.

We report outstanding balances on the ABL Facility as short-term regardless of the maturity date based on use of the ABL Facility to fund ordinary and customary operating cash needs with frequent repayments.

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

Reserves for Royalty Advances

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

Contingency Reserves

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

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

While we believe that the final resolution of any known maters, individually and in the aggregate, will not have a material adverse effect upon our consolidated financial position, results of operations or cash flows, it is possible that we could incur additional losses. We maintain insurance that may provide coverage for such matters. Future

claims against us, whether meritorious or not, could have a material adverse effect upon our consolidated financial position, results of operations or cash flows, including losses due to costly litigation and losses due to matters that require significant amounts of management time that can result in the diversion of significant operational resources. See Note 14 Commitments and Contingencies.

Revenue Recognition

We adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC Topic 606) on January 1, 2018 using the modified retrospective method. Our operating results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts continue to be reported in accordance with our historic accounting under Topic 605. The timing and measurement of our revenues under ASC Topic 606 is similar to that recognized under previous guidance, accordingly, the adoption of ASC Topic 606 did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof at adoption or in the current period. There were no changes in our opening retained earnings balance as a result of the adoption of ASC Topic 606.

ASC Topic 606 is a comprehensive revenue recognition model that requires revenue to be recognized when control of the promised goods or services are transferred to our customers at an amount that reflects the consideration that we expect to receive. Application of ASC Topic 606 requires us to use more judgment and make more estimates than under former guidance. Application of ASC Topic 606 requires a five-step model applicable to all revenue streams as follows:

Identification of the contract, or contracts, with a customer

A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer s intent and ability to pay the promised consideration.

We apply judgment in determining the customer s ability and intention to pay, which is based on a variety of factors including the customer s historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

Identification of the performance obligations in the contract

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

When a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Determination of the transaction price

The transaction price is determined based on the consideration to which we will be entitled to receive in exchange for transferring goods or services to our customer. We estimate any variable consideration included in the transaction price using the expected value method that requires the use of significant estimates for discounts, cancellation periods, refunds and returns. Variable consideration is described in detail below.

Allocation of the transaction price to the performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative Stand-Alone Selling Price (SSP,) basis. We determine SSP based on the price at which the performance obligation would be sold separately. If the SSP is not observable, we estimate the SSP based on available information, including market conditions and any applicable internally approved pricing guidelines.

Recognition of revenue when, or as, we satisfy a performance obligation

We recognize revenue at the point in time that the related performance obligation is satisfied by transferring the promised goods or services to our customer.

Principal versus Agent Considerations

When another party is involved in providing goods or services to our customer, we apply the principal versus agent guidance in ASC Topic 606 to determine if we are the principal or an agent to the transaction. When we control the specified goods or services before they are transferred to our customer, we report revenue gross, as principal. If we do not control the goods or services before they are transferred to our customer, revenue is reported net of the fees paid to the other party, as agent. Our evaluation to determine if we control the goods or services within ASC Topic 606 includes the following indicators:

We are primarily responsible for fulfilling the promise to provide the specified good or service.

When we are primarily responsible for providing the goods and services, such as when the other party is acting on our behalf, we have indication that we are the principal to the transaction. We consider if we may terminate our relationship with the other party at any time without penalty or without permission from our customer.

We have inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.

We may commit to obtaining the services of another party with or without an existing contract with our customer. In these situations, we have risk of loss as principal for any amount due to the other party regardless of the amount(s) we earn as revenue from our customer.

The entity has discretion in establishing the price for the specified good or service.

We have discretion in establishing the price our customer pays for the specified goods or services.

Contract Assets

Contract Assets Costs to Obtain a Contract: We capitalize commissions paid to sales personnel in our self-publishing business when customer contracts are signed and advance payment is received. These capitalized costs are recorded as prepaid commission expense in the Consolidated Balance Sheets. The amount capitalized is incremental to the contract and would not have been incurred absent the execution of the customer contract. Commissions paid upon the initial acquisition of a contract are expensed at the point in time that related revenue is recognized. Prepaid commission expenses are periodically reviewed for impairment. At December 31, 2018, our prepaid commission expense was $0.7 million.

Contract Liabilities

Contract liabilities consist of customer advance payments and billings in excess of revenue recognized. We may receive payments from our customers in advance of completing our performance obligations. Additionally, new customers, existing customers without approved credit terms and authors purchasing specific self-publishing services, are required to make payments in advance of the delivery of the products or performance of the services. We record contract liabilities equal to the amount of payments received in excess of revenue recognized, including payments that are refundable if the customer cancels the contract according to the contract terms. Contract liabilities were historically recorded under the caption deferred revenue and are reported as current liabilities on our consolidated financial statements when the time to fulfill the performance obligations under terms of our contracts is less than one year. Long-term contract liabilities represent the amount of payments received in excess of revenue earned, including those that are refundable, when the time to fulfill the performance obligation is greater than one year. Our long-term liabilities consist of subscriptions with a term of two-years for which some customers have purchased and paid for multiple years.

Significant changes in our contract liabilities balances during the period are as follows:

	Short Term	Long-Term
	(Dollars in thousands)	
Balance, beginning of period January 1, 2018	$ 12,763	$ 1,951
Revenue recognized during the period that was included in the beginning balance of contract liabilities	(7,843)	
Additional amounts recognized during the period	21,460	830
Revenue recognized during the period that was recorded during the period	(16,245)	
Transfers	1,402	(1,402)
Balance, end of period December 31, 2018	$ 11,537	$ 1,379
Amount refundable at beginning of period	$ 12,450	$ 1,677
Amount refundable at end of period	$ 11,410	$ 1,379

We expect to satisfy these performance obligations as follows:

	Amount
	(Dollars in thousands)
For the Twelve Months Ended December 31,	
2019	$ 11,537
2020	606
2021	331
2022	179
2023	94
Thereafter	169
	$ 12,916

Significant Financing Component

The length of our typical sales agreement is less than 12 months, however, we may sell subscriptions with a two-year term. The balance of our long-term contract liabilities represent the unsatisfied performance obligations for subscriptions with a remaining term in excess of one year. We review long-term contract liabilities that are expected to be completed in excess of one year to assess whether the contract contains a significant financing component. The balance includes subscriptions that will be satisfied at various dates between July 1, 2019 and September 30, 2020. The difference between the promised consideration and the cash selling price of the publications is not significant. Therefore, we have concluded that subscriptions do not contain a significant financing component under ASC Topic 606.

Our self-publishing contracts may exceed a one year term due to the length of time for an author to submit and approve a manuscript for publication. The author may pay for publishing services in installments over the production time line with payments due in advance of performance. The timing of the transfer of goods and services under self-publishing arrangements are at the discretion of the author and based on future events that are not substantially within our control. We require advance payments to provide us with protection from incurring costs for products that are unique and only sellable to the author. Based on these considerations, we have concluded that our self-publishing contracts do not contain a significant financing component under ASC Topic 606.

Variable Consideration

Similar to former revenue recognition guidance, we continue to make significant estimates related to variable consideration at the point of sale, including estimates for refunds and product returns. Under ASC Topic 606, estimates of variable consideration are to be recognized before contingencies are resolved in certain circumstances, including when it is probable that a significant reversal in the amount of any estimated cumulative revenue will not occur.

We enter into agreements under which the amount of revenue we earn is contingent upon the amount of money raised by our customer over the contract term. Our customer is typically a charity or programmer that purchases blocks of programming time or spots to generate revenue from our audience members. Contract terms can range from a few weeks to a few months, depending the charity or programmer. If the campaign does not generate a pre-determined level of donations or revenue to our customer, the consideration that we expect to be entitled to may vary above a minimum base level per the contract. Historically, under ASC Topic 605, we reported variable consideration as revenue when the amount was fixed and determinable. Under ASC Topic 606, variable consideration is to be estimated using the expected value or the most likely amount to the extent it is probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Based on the constraints for using estimates of variable consideration within ASC Topic 606, and our historical experience with these campaigns, we will continue to recognize revenue at the base amount of the campaign with variable consideration recognized when the uncertainty of each campaign is resolved. These constraints include: (1) the amount of consideration received is highly susceptible to factors outside of our influence, specifically the extent to which our audience donates or contributes to our customer or programmer, (2) the length of time in which the uncertainty about the amount of consideration expected is to be resolved, and (3) our experience has shown these contracts have a large number and broad range of possible outcomes.

Trade and Barter Transactions

In broadcasting, trade or barter agreements are commonly used to reduce cash expenses by exchanging advertising time for goods or services. We may enter barter agreements to exchange air time or digital advertising for goods or services that can be used in our business or that can be sold to our audience under Listener Purchase Programs. The terms of these barter agreements permit us to preempt the barter air time or digital campaign in favor of customers who purchase the air time or digital campaign for cash. The value of these non-cash exchanges is included in revenue in an amount equal to the fair value of the goods or services we receive. Each transaction must be reviewed to determine that the products, supplies and/or services we receive have economic substance, or value to us. We record barter operating expenses upon receipt and usage of the products, supplies and services, as applicable. We record barter revenue as advertising spots or digital campaigns are delivered, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Barter revenue is recorded on a gross basis unless an agency represents the programmer, in which case, revenue is reported net of the commission retained by the agency.

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Trade and barter revenues and expenses were as follows:

	Year Ended December 31,	
	2017	**2018**
Net broadcast barter revenue	$ 5,858	**$ 6,702**
Net digital media barter revenue	30	**124**
Net publishing barter revenue	51	**11**
Net broadcast barter expense	$ 5,575	**$ 6,161**
Net digital media barter expense		**3**
Net publishing barter expense	100	**20**

Practical Expedients and Exemptions

We have elected certain practical expedients and policy elections as permitted under ASC Topic 606 as follows:

We applied the transitional guidance to contracts that were not complete at the date of our initial application of ASC Topic 606 on January 1, 2018.

We adopted the practical expedient related to not adjusting the promised amount of consideration for the effects of a significant financing component if the period between transfer of product and customer payment is expected to be less than one year at the time of contract inception;

We made the accounting policy election to not assess promised goods or services as performance obligations if they are immaterial in the context of the contract with the customer;

We made the accounting policy election to exclude sales and similar taxes from the transaction price;

We made the accounting policy election to treat shipping and handling costs that occur after control transfers as fulfillment activities instead of assessing such activities as separate performance obligations; and

We adopted the practical expedient not to disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The following table presents our revenues disaggregated by revenue source for each of our three operating segments:

	Year Ended December 31, 2018			
	Broadcast	Digital Media	Publishing	Consolidated
	(Dollars in thousands)			
By Source of Revenue:				
Block Programming-National	$ 49,864	$	$	$ 49,864
Block Programming-Local	33,274			33,274
Spot Advertising-National	16,333			16,333
Spot Advertising-Local	55,863			55,863
Infomercials	1,824			1,824
Network	19,293			19,293
Digital Advertising	7,172	22,351	473	29,996
Digital Streaming	752	4,347		5,099
Digital Downloads and eBooks		5,354	1,481	6,835
Subscriptions	1,056	8,205	907	10,168
Book Sales and e-commerce	483	1,949	11,866	14,298
Self-Publishing fees			5,609	5,609
Advertising-Print	42		574	616
Other Revenues	12,546	389	776	13,711
	$ 198,502	**$ 42,595**	**$ 21,686**	**$ 262,783**
Timing of Revenue Recognition				
Point in Time	$ 196,187	$ 42,500	$ 21,640	$ 260,327
Rental Income(1)	2,315	95	46	2,456
	$ 198,502	**$ 42,595**	**$ 21,686**	**$ 262,783**

(1) Rental income is not applicable to ASC Topic 606, but shown for the purpose of identifying each revenue source presented in total revenue on our Consolidated Financial Statements within this report on Form 10-K.

A summary of each of our revenue streams under ASC Topic 606 is as follows:

Block Programming. We recognize revenue from the sale of blocks of air time to program producers that typically range from $12^1/_2$, 25 or 50-minutes of time. We separate block program revenue into three categories, National, Local and Infomercial revenue. Our stations are classified by format, including Christian Teaching and Talk, News Talk, Contemporary Christian Music, Spanish Language Christian Teaching and Talk and Business. National and local programming content is complementary to our station format while infomercials are closely associated with long-form advertisements. Block Programming revenue may include variable consideration for charities and programmers that purchase blocks of air time to generate donations and contributions from our audience. Block programming revenue is recognized at the time of broadcast, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Programming revenue is recorded on a gross basis unless an agency represents the programmer, in which case, revenue is reported net of the commission retained by the agency.

Spot Advertising. We recognize revenue from the sale of air time to local and national advertisers who purchase spot commercials of varying lengths. Spot Advertising may include variable consideration for charities and programmers that purchase spots to generate donations and contributions from our audience. Advertising revenue is recognized at the time of broadcast, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Advertising revenue is recorded on a gross basis unless an agency represents the advertiser, in which case, revenue is reported net of the commission retained by the agency.

Network Revenue. Network revenue includes the sale of advertising time on our national network and fees earned from the syndication of programming on our national network. Network revenue is recognized at the time of broadcast, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Network revenue is recorded on a gross basis unless an agency represents the customer, in which case, revenue is reported net of the commission retained by the agency.

Digital Advertising. We recognize revenue from the sale of banner advertising on our owned and operated websites and on our own and operated mobile applications. Each of our radio stations, our digital media entities and certain publishing entities have custom websites and mobile applications that generate digital advertising revenue. Digital advertising revenue is recognized at the time that the banner display is delivered, or the number of impressions delivered meets the advertiser s previously agreed-upon performance criteria, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Digital advertising revenue is reported on a gross basis unless an agency represents the customer, in which case, revenue is reported net of the commission retained by the agency.

Broadcast digital advertising revenue consists of local digital advertising, such as the sale of banner advertisements on our owned and operated websites, the sale of advertisements on our own and operated mobile applications, and advertisements in digital newsletters that we produce, as well an national digital advertising, or the sale of custom digital advertising solutions, such as web pages and social media campaigns, that we offer to our customers. Advertising revenue is recorded on a gross basis unless an agency represents the advertiser, in which case, revenue is reported net of the commission retained by the agency.

Salem Surround. During 2018, we launched a national multimedia advertising agency with locations in 35 markets across the United States. Salem Surround offers a comprehensive suite of digital marketing services to develop and execute audience-based marketing strategies for clients on both the national and local level. Salem Surround specializes in digital marketing services for each of our radio stations and websites as well as provides a full-service digital marketing strategy for each of our clients. In our role as a digital agency, our sales team provides our customers with integrated digital advertising solutions that optimize the performance of their campaign, which we view as one performance obligation. Our advertising campaigns are designed to be white label agreements between Salem and our advertiser, meaning we provide special care and attention to the details of the campaign. We provide custom digital product offerings, including tools for metasearch, retargeting, website design, reputation management, online listing services, and social media marketing. Digital advertising solutions may include third-party websites, such as Google or Facebook, which can be included in a digital advertising social media campaign. We manage all aspects of the digital campaign, including social media placements, review and approval of target audiences, and the monitoring of actual results to make modifications as needed. We may contract directly with a third-party, however, we are responsible for delivering the campaign results to our customer with or without the third-party. We are responsible for any payments due to the third-party regardless of the campaign results and without regard to the status of payment from our customer. We have discretion in setting the price to our customer without input or approval from the third-party. Accordingly, revenue is reported gross, as principal, as the performance obligation is delivered, which represents the point in time that control is transferred to the customer thereby completing our performance obligation.

Digital Streaming. We recognize revenue from the sale of advertisements and from the placement of ministry content that is streamed on our owned and operated websites and on our owned and operated mobile applications. Each of our radio stations, our digital media entities and certain publishing entities have custom websites and mobile applications that generate streaming revenue. Digital streaming revenue is recognized at the time that the content is delivered, or when the number of impressions delivered meets our customer s previously agreed-upon performance criteria. Delivery of the content represents the point in time that control is transferred to the customer thereby completing our performance obligation. Streaming revenue is reported on a gross basis unless an agency represents the customer, in which case, revenue is reported net of the commission retained by the agency.

Digital Downloads and e-books. We recognize revenue from sale of downloaded materials, including videos, song tracks, sermons, content archives and e-books. Payments for downloaded materials are due in advance of the download, however, the download is often instant upon confirmation of payment. Digital download revenue is recognized at the time of download, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Revenue is recorded at the gross amount due from the customer. All sales are final with no allowances made for returns.

Subscriptions. We recognize revenue from the sale of subscriptions for financial publication digital newsletters, digital magazines, podcast subscriptions for on-air content, and subscriptions to our print magazine. Subscription terms typically range from three months to two years, with a money-back guarantee for the first 30 days. Refunds after the first 30 day period are considered on a pro-rata basis based on the number of publications issued and delivered. Payments are due in advance of delivery and can be made in full upon subscribing or in quarterly installments. Cash received in advance of the subscription term, including amounts that are refundable, is recorded in contract labilities. Revenue is recognized ratably over the subscription term at the point in time that each publication is transmitted or shipped, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Revenue is reported net of estimated cancellations, which are based on our experience and historical cancellation rates during the cancellable period.

Book Sales. We recognize revenue from the sale of books upon shipment, which represents the point in time that control is transferred to the customer thereby completing the performance obligation. Revenue is recorded at the gross amount due from the customer, net of estimated sales returns and allowances based on our historical experience. Major new title releases represent a significant portion of the revenue in the current period. Print-based consumer books are sold on a fully-returnable basis. We do not record assets or inventory for the value of returned books as they are considered used regardless of the condition returned. Our experience with unsold or returned books is that their resale value is insignificant and they are often destroyed or disposed of.

e-Commerce. We recognize revenue from the sale of products sold through our digital platform, including wellness products through Newport Natural Health. Payments for products are due in advance shipping. We record a contract liability when we receive customer payments in advance of shipment. The time frame from receipt of payment to shipment is typically one business day based on the time that an order is placed as compared to fulfillment. E-Commerce revenue is recognized at the time of shipment, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Revenue is reported net of estimated returns, which are based on our experience and historical return rates. Returned products are recorded in inventory if they are unopened and re-saleable with a corresponding reduction in the cost of goods sold.

Self-Publishing Fees. We recognize revenue from self-publishing services through Salem Author Services (SAS), including book publishing and support services to independent authors. Services include book cover design, interior layout, printing, distribution, marketing services and editing for print books and eBooks. As each book and related support services are unique to each author, authors must make payments in advance of the performance. Payments are typically made in installments over the expected production time line for each publication. We record contract liabilities equal to the amount of payments received, including those amounts that are fully or partially refundable. Contract liabilities were historically recorded under the caption deferred revenue and are reported as current liabilities or long term liabilities on our consolidated financial statements based on the time to fulfill the performance obligations under terms of the contract. Refunds are limited based on the percentage completion of each publishing project.

Revenue is recognized upon completion of each performance obligation, which represents the point in time that control of the product is transferred to the author, thereby completing our performance obligation. Revenue is recorded at the net amount due from the author, including discounts based on the service package.

Advertising Print. We recognize revenue from the sale of print magazine advertisements. Revenue is recognized upon delivery of the print magazine which represents the point in time that control is transferred to the customer thereby completing the performance obligation. Revenue is reported on a gross basis unless an agency represents the customer, in which case, revenue is reported net of the commission retained by the agency.

Other Revenues. Other revenues include various sources, such as event revenue, listener purchase programs, talent fees for on-air hosts, rental income for studios and towers, production services, and shipping and handling fees. We recognize event revenue, including fees earned for ticket sales and sponsorships, when the event occurs, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Revenue for all other products and services is recorded as the products or services are delivered or performed, which represents the point in time that control is transferred to the customer thereby completing our performance obligation. Other revenue is reported on a gross basis unless an agency represents the customer, in which case, revenue is reported net of the commission retained by the agency.

Stock-Based Compensation

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

Advertising and Promotional Cost

Costs of media advertising and associated production costs are expensed as incurred and amounted to approximately $10.9 million and $12.0 million for each of the years ended December 31, 2018 and 2017.

Leases

We lease broadcast towers, transmitter sites and office space throughout the United States. We review each lease agreement upon inception to determine the appropriate classification of the lease as a capital lease or operating lease based on the factors listed in FASB ASC Topic 840 *Leases*. Our current lease terms generally range from one to twenty-five years with rent expense recorded on a straight-line basis for financial reporting purposes. Where leases include rent holidays, rent escalations, rent concessions and leasehold improvement incentives, the value of these incentives are amortized over the lease term including anticipated renewal periods. Rent expense, exclusive of intercompany leases that are eliminated from our consolidated operating results, was $15.4 million and $15.5 million, respectively, for the years ended December 31, 2018 and 2017.

Deferred rental revenue was $4.1 million and $4.3 million as of December 31, 2018 and 2017, respectively.

Leasehold Improvements

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

(Gain) Loss on the Disposition of Assets

We record gains or losses on the disposition of assets equal to the proceeds, if any, as compared to the net book value. Exchange transactions are accounted for in accordance with FASB ASC Topic 845 *Non-Monetary Transactions*.

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During the year ended December 31, 2018, we recorded a $4.7 million pre-tax loss that includes a $2.4 million pre-tax loss on the sale of radio station KGBI-FM in Omaha, Nebraska, a $1.8 million pre-tax loss on the sale of radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska, a $0.3 million pre-tax loss on the sale of land in Lakeside, California, and a $0.2 million pre-tax loss on the sale of land in Covina, California offset by a $0.2 million pre-tax gain on the sale of radio station WBIX-AM in Boston, Massachusetts.

During the year ended December 31, 2017, we recorded a $3.9 million pre-tax loss, including a $4.7 million estimated loss for the pending sale of WQVN-AM (formerly WKAT-AM) in Miami, Florida, a $77,000 loss related to transmitter equipment in Dallas, Texas that was no longer in use and a $2,000 net loss for equipment damaged in our Tampa, Florida market as a result of hurricane Irma in September 2017 that was offset by a $0.5 million gain from the sale of a former transmitter site in our Dallas, Texas market, a $0.4 million gain on the sale of the WSPZ-AM tower site, and a $16,000 net gain from disposals within our print magazine segment.

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*.

Basic and Diluted Net Earnings Per Share

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

Options to purchase 1,980,972 and 1,428,462 shares of Class A common stock were outstanding at December 31, 2018 and 2017. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company s stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive. The number of anti-dilutive shares as of December 31, 2018 and 2017 was 1,672,217 and 814,556.

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

	Year Ended December 31,	
	2017	**2018**
Weighted average shares	26,068,942	**26,179,702**
Effect of dilutive securities stock options	366,815	
Weighted average shares adjusted for dilutive securities	26,435,757	**26,179,702**

Segments

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

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

Variable Interest Entities

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

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

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

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of December 31, 2018, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

Concentrations of Business Risks

We derive a substantial part of our total revenues from the sale of advertising. For the years ended December 31, 2018 and 2017, 36.4% and 36.8%, respectively, of our total broadcast revenues were generated from the sale of broadcast advertising. We are particularly dependent on revenue from stations in the Los Angeles and Dallas markets, which generated 14.8% and 19.6% for the year ended December 31, 2018 and 15.4% and 19.3% for the year ended December 31, 2017. Because substantial portions of our revenues are derived from local advertisers in these key markets, our ability to generate revenues in those markets could be adversely affected by local or regional economic downturns.

Concentrations of Credit Risks

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

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.

Recent Accounting Pronouncements

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

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which provides clarification on implementation issues associated with adopting ASU 2016-02. The implementation issues noted in ASU 2019-01 include determining the fair value of the underlying asset by lessors that are not manufacturers or dealers, presentation on the statement of cash flows for sales-type and direct financing leases, and transition disclosures related to Topic 250, Accounting Changes and Error Corrections. We will apply the guidance, if applicable, as of January 1, 2019, the date we adopted ASU 2016-02. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

In November 2018, the FASB issued ASU 2018-18*, Collaborative Arrangements (Tope 818): Clarifying the Interaction Between Topic 808 and Topic 606*, which clarifies when transactions between participants in a collaborative arrangement are within the scope of the FASB s revenue standard, Topic 606. The standard is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. We will adopt this standard on its effective date of January 1, 2020. We do not expect the adoption of this ASU to have a material impact on our consolidated financial position, results of operations, cash flows, or presentation thereof.

In October 2018, the FASB issued ASU 2018-17, *Targeted Improvements to Related Party Guidance for Variable Interest Entites*, that changes the guidance for determining whether a decision-making fee paid to a decision makers and service providers are variable interests. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. We will adopt this standard on its effective date of January 1, 2020. We do not expect the adoption of this ASU to have a material impact on our consolidated financial position, results of operations, cash flows, or presentation thereof.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We will adopt this standard on its effective date of January 1, 2020. We are currently evaluating the impact of this ASU on our financial position, results of operations, cash flows, or presentation thereof.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement.* ASU 2018-13 removes or modifies certain disclosures and in certain instances requires additional disclosures. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We will adopt this standard on its effective date of January 1, 2020. We do not expect the adoption of this ASU to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* which provides a new transition method and a practical expedient for separating components of a lease contract. ASU 2018-11 is intended to reduce the costs and ease the implementation of the new leasing standard for financial statement preparers. The effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. We adopted this ASU on its effective date of January 1, 2019. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. ASU 2018-10 affects narrow aspects of the guidance issued in ASU 2016-02. ASU 2018-10 does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications based on comments and suggestions made by various stakeholders. ASU 2018-10 makes improvements to the following aspects of the guidance in ASC 842: residual value guarantees, rate implicit in the lease, lessee s reassessment of lease classification, lessor s reassessment of lease term and purchase option, variable lease payments that depend on an index or a rate, investment tax credits, lease term and purchase option, transition guidance related to amounts previously recognized in business combinations, certain transition adjustments, transition guidance for leases previously classified as capital leases under ASC 840, transition guidance related to modifications to leases previously classified as direct financing or sale-type leases under ASC 840, transition guidance related to sale-and-leaseback transactions, impairment of net investment in the lease, unguaranteed residual assets, effect of initial direct costs on rate implicit in the lease and failed sale-and-leaseback transaction. Certain updates are applicable immediately while others provide for a transition period to adopt as part of the next fiscal year beginning after December 15, 2018. We adopted this ASU on its effective date of January 1, 2019. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements*. ASU 2018-09 provides minor corrections and clarifications that affect a variety of topics in the Codification. Several updates are effective upon issuance of the update while others have transition guidance for effective dates in the future. We do not expect the adoption of this ASU to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In June 2018, the FASB issued ASU 2018-07, *Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment*. ASU 2018-07 aligns the accounting for share based payments granted to non-employees with that of share based payments granted to employees. We adopted this ASU on its effective date of January 1, 2019. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (The Act). Consequently, the amendments eliminate the stranded tax effects resulting from the Act to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. We adopted this ASU on its effective date of January 1, 2019. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842.* ASU 2018-01 provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. We adopted this ASU on its effective date of January 1, 2019. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better align risk management activities in financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. We adopted this ASU on its effective date of January 1, 2019. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In March 2017, the FASB issued ASU 2017-08, *Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium to a shorter period based on the earliest call date. We adopted this ASU on its effective date of January 1, 2019. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In October 2016, the FASB issued ASU 2016-16 *Intra-Entity Transfers of Assets Other Than Inventory* which modifies existing guidance for the accounting for income tax consequences of intra-entity transfers of assets. This ASU requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, rather than deferring the tax consequences under current GAAP. We adopted this ASU on its effective date of January 1, 2019. The adoption of this ASU did not have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses,* which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking expected loss model that will replace today s incurred loss model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. Subsequent to issuing ASU 2016-13, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments Credit Losses*, for the purpose of clarifying certain aspects of ASU 2016-13. ASU 2018-19 has the same effective date and transition requirements as ASU 2016-13. We plan to adopt this ASU on its effective date of January 1, 2020. We do not expect the adoption of this ASU to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, (ASC 842) which requires that lessees recognize a right-of-use asset and a lease liability for all leases with lease terms greater than twelve months in the balance sheet. ASC 842 distinguishes leases as either a finance lease or an operating lease, that affects how the leases are measured and presented in the statement of operations and statement of cash flows. ASC 842 requires additional disclosures including the significant judgments made by management to provide insight into the revenue and expense to be recognized from existing contracts and the timing and uncertainty of cash flows arising from leases. We adopted the new guidance on January 1, 2019. We elected the practical expedients upon transition to retain the existing lease classification and retain the original accounting treatment for any initial direct costs for leases in existence prior to December 31, 2018. We adopted the optional transition method allowing entities to recognize a cumulative effect adjustment to the opening balance of stockholders equity in the period of adoption, with no restatement of comparative prior years. We have conducted a review of our existing lease contracts, conducted a review of other agreements that may contain embedded leases, established the necessary changes to our systems, and we are implementing a new software solution designed to account for leases under ASC 842. We continue to validate contracts and the data entered into our software solution to determine the impact that ASC 842 will have on our financial statements and disclosures. We will record right-of-use assets and related lease liabilities for operating leases that will have a material impact on our consolidated balance sheet, with no impact to our results of operations, cash flows or presentation thereof. There were no changes in our current capital lease portfolio, which will be titled finance leases under ASC 842. Our existing credit facility stipulates that our covenants are based on GAAP as of the agreement date, therefore, the material impact of recording right-of-use assets and lease liabilities on our consolidated balance sheet will not impact our debt covenants.

NOTE 3. ACQUISITIONS AND RECENT TRANSACTIONS

During the year ended December 31, 2018, we completed or entered into the following transactions:

2018 Debt Transactions

Based on the then existing market conditions, we completed repurchases of the Notes at amounts less than face value as follows during the year ended December 31, 2018:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
December 21, 2018	$ 2,000	$ 1,835	91.75%	$ 38	$ 127
December 21, 2018	1,850	1,702	92.00%	35	113
December 21, 2018	1,080	999	92.50%	21	60
November 17, 2018	1,500	1,357	90.50%	29	114
May 4, 2018	4,000	3,770	94.25%	86	144
April 10, 2018	4,000	3,850	96.25%	87	63
April 9, 2018	2,000	1,930	96.50%	43	27
	$ 16,430	$ 15,443			

2018 Equity Transactions

Based upon their current assessment of our business, our Board of Directors declared equity distributions as follows:

Announcement Date	Record Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)

November 26, 2018	December 7, 2018	December 21, 2018	$ 0.0650	$ 1,702
September 5, 2018	September 17, 2018	September 28, 2018	0.0650	1,702
May 31, 2018	June 15, 2018	June 29, 2018	0.0650	1,701
February 28, 2018	March 14, 2018	March 28, 2018	0.0650	1,701
				$ 6,806

2018 Acquisitions Broadcast

On September 11, 2018, we acquired radio station KTRB-AM in San Francisco for $5.1 million in cash from a related party. The acquisition was accounted for as an asset purchase to include $0.2 million of transaction costs. We operated the radio station under an LMA that began on June 24, 2016. The accompanying Consolidated Statements of Operations reflect the operating results of this station as of the LMA date within the broadcast operating segment. Our Nominating and Corporate Governance Committee reviewed the transaction, including an appraisal of the station performed by a licensed broker and reports related to the financial performance of the station during the LMA period, and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm s length dealings with an unrelated third-party.

On July 25, 2018, we acquired radio station KZTS-AM (formerly KDXE-AM) and an FM Translator in Little Rock, Arkansas for $0.2 million in cash. The acquisition was accounted for as an asset purchase to include $30,000 of transaction cost. The radio station is currently operated under an LMA agreement with another party and is not reflected in the accompanying Consolidated Statements of Operations.

On June 25, 2018, we acquired KDXE-FM (formerly KZTS-FM) in Little Rock, Arkansas for $1.1 million in cash. We operated the radio station under an LMA beginning on April 1, 2018. We recorded goodwill of approximately $7,400 attributable to the additional audience reach obtained and the expected synergies to be realized when combining the operations of this station into our existing cluster in this market. The accompanying Consolidated Statements of Operations reflect the operating results of this station as of the LMA date within the broadcast operating segment.

2018 Acquisitions Digital Media

On August 9, 2018, we acquired the Hilary Kramer Financial Newsletter and related assets valued at $2.0 million and we assumed deferred subscription liabilities valued at $1.5 million. We paid $0.4 million in cash upon closing and may pay up to an additional $0.1 million of contingent earn-out consideration over the next two years based on the achievement of certain revenue benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of the Hilary Kramer Financial Newsletter to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $40,617, which was recorded at the discounted present value of $39,360. The discount will be accreted to interest expense over the two year earn-out period. We recorded goodwill of $0.3 million attributable to the expected synergies to be realized when combining the operations of this entity into our existing operations.

On August 7, 2018, we acquired the Just1Word mobile applications and related assets for $0.3 million in cash upon closing. We may pay up to an additional $0.1 million of contingent earn-out consideration over the next two years based on the achievement of certain revenue benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Just1Word to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $12,750, which was recorded at the discounted present value of $12,212. The discount will be accreted to interest expense over the two year earn-out period.

On July 24, 2018, we acquired the Childrens-Ministry-Deals.com website and related assets for $3.7 million in cash. We paid $3.5 million in cash upon closing and may pay an additional $0.2 million in cash within twelve months from the closing date provided that the seller meet certain post-closing requirements with regard to intellectual property. We recorded goodwill of $0.7 million attributable to the expected synergies to be realized when combining the operations of this entity into our existing operations.

On April 19, 2018, we acquired the HearItFirst.com domain name and related social media assets for $70,000 in cash.

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A summary of our business acquisitions and asset purchases during the year ended December 31, 2018, none of which were individually or in the aggregate material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description		Total Consideration *(Dollars in thousands)*
September 11, 2018	KTRB-AM, San Francisco, California (asset purchase)	$	**5,349**
August 9, 2018	Hilary Kramer Financial Newsletter (business acquisition)		**439**
August 7, 2018	Just1Word (business acquisition)		**312**
July 25, 2018	KZTS-AM (formerly KDXE-AM), Little Rock, Arkansas (asset purchase)		**210**
July 24, 2018	Childrens-Ministry-Deals.com (business acquisition)		**3,700**
June 25, 2018	KDXE-FM (formerly KZTS-FM), Little Rock, Arkansas (business acquisition)		**1,100**
April 19, 2018	HearItFirst.com (asset purchase)		**70**
		$	**11,180**

Costs associated with business acquisitions, such as consulting and legal fees, are expensed as incurred. During the year ended December 31, 2018, we recognized costs associated with acquisitions of $0.2 million, which are included in unallocated corporate expenses in the accompanying Consolidated Statements of Operations compared to $0.1 million in the same period of the prior year.

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

The following table summarizes the total acquisition consideration for the year ended December 31, 2018:

Description		Total Consideration *(Dollars in thousands)*
Cash payments made upon closing	$	**10,854**
Deferred payments		**150**
Present value of estimated fair value of contingent earn-out consideration		**51**
Closing costs accrued for asset acquisitions		**125**
Total purchase price consideration	$	**11,180**

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

	Net Broadcast Assets	Net Digital Assets	Net Total Assets
		(Dollars in thousands)	
Assets			
Property and equipment	$ 371	$ 715	$ 1,086
Broadcast licenses	6,281		6,281
Goodwill	7	986	993
Customer lists and contracts		1,882	1,882
Domain and brand names		1,252	1,252
Subscriber base and lists		875	875
Non-compete agreements		19	19
Other amortizable intangible assets		334	334
	$ 6,659	**$ 6,063**	**$ 12,722**
Liabilities			
Contract liabilities, long-term	$	$ (1,542)	$ (1,542)
	$ 6,659	**4,521**	**11,180**

Divestitures

On October 31, 2018, we closed on the sale of radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska for $1.4 million in cash. The buyer began programming the stations under an LMA on August 8, 2018. Based on our plan to sell the stations, we recorded an estimated pre-tax loss on the sale of assets of $1.6 million at June 30, 2018, reflecting the sales price as compared to the carrying value of the assets and the estimated cost to sell. We recorded an additional loss of $0.1 million at closing based on the final agreement and actual costs. The buyer began programming the stations under an LMA on August 8, 2018. The accompanying Consolidated Statements of Operations excludes the operating results of this station as of the LMA date from the broadcast operating segment.

On August 28, 2018, we closed on the sale of radio station WQVN-AM (formerly WKAT-AM) in Miami, Florida for $3.5 million in cash. The buyer had been operating the radio station under an LMA since December 1, 2017. We recorded an estimated pre-tax loss on the sale of assets of $4.7 million as of December 31, 2017, based on the probability of the sale at that time, which reflected the sales price as compared to the carrying value of the assets and the estimated costs of the sale. The accompanying Consolidated Statements of Operations excludes the operating results of this station as of the LMA date from the broadcast operating segment.

On August 6, 2018, we closed on the sale of radio station KGBI-FM in Omaha, Nebraska for $3.2 million in cash. We recorded an estimated pre-tax loss on the sale of $3.2 million since June 30, 2018, based on the sales price as compared to the carrying value of the assets and the estimated cost to sell. At the closing date, we revised the loss on the sale to $2.4 million, based on the actual assets sold and a reduction in liabilities associated with the radio station. The accompanying Consolidated Statements of Operations excludes the operating results of this station as of the closing date from the broadcast operating segment.

On June 28, 2018, we closed on the sale of land in Lakeside, California for $0.3 million in cash.

On June 20, 2018, we closed on the sale of radio station WBIX-AM in Boston, Massachusetts for $0.7 million in cash. The buyer had been operating the station under an LMA since January 8, 2018. We recorded a pre-tax gain on the sale of $0.2 million. The accompanying Consolidated Statements of Operations excludes the operating results of this station as of the LMA date from the broadcast operating segment

On May 24, 2018, we closed on the sale of land in Covina, California for $0.8 million in cash. The original APA was for $1.0 million and was to close in the latter half of 2020. We accepted the revised purchase price of $0.8 million and recorded a $0.2 million pre-tax loss based on the earlier closing date. The land, which was not used in operations, was recorded in long-term land held for sale based on the original APA term.

2018 Other Transactions

On April 30, 2018, we ceased programming radio station KHTE-FM, in Little Rock, Arkansas. We programmed the station under a Time Brokerage Agreement (TBA) beginning on April 1, 2015. We had the option to acquire the station for $1.2 million in cash during the TBA period. We paid the licensee a $0.1 million fee for not exercising our purchase option for the station. The accompanying Consolidated Statements of Operations reflect the operating results of this station as of the LMA date within the broadcast operating segment.

On January 2, 2018, we began programming radio stations KPAM-AM and KKOV-AM in Portland, Oregon under Local Marketing Agreements (LMAs) entered on December 29, 2017, with original terms of up to 12 months. The LMAs terminated on March 30, 2018 when the radio stations were sold to another party. We entered a second LMA with the new owner as of the closing date under which we continue to program radio station KPAM-AM. The accompanying Consolidated Statements of Operations reflects the operating results of these stations during the LMA terms.

Pending Transactions

On April 26, 2018, we entered an agreement to exchange radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. We are currently operating radio station KPAM-AM under an LMA as described above. The exchange transaction is subject to the approval of the FCC and is expected to close in the first half of 2019.

On January 3, 2017, Word Broadcasting began operating our Louisville radio stations (WFIA-AM; WFIA-FM; WGTK-AM) under a twenty-four month TBA. We received $0.5 million in cash associated with an option for Word Broadcasting Network to acquire the radio stations during the term. In December 2018, Word Broadcasting notified us of their intent to purchase our Louisville radio stations. The TBA contains an extension clause to allow them to continue operating the station until the purchase agreement is executed and the transaction closes.

During the year ended December 31, 2017, we completed or entered into the following transactions:

2017 Debt Transactions

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

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

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

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

2017 Equity Transactions

Based upon their then current assessment of our business, our Board of Directors declared equity distributions as follows:

Announcement Date	Record Date	Payment Date	Amount Per Share		Cash Distributed (in thousands)	
December 7, 2017	December 18, 2017	December 29, 2017	$	0.0650	$	1,701
September 12, 2017	September 22, 2017	September 29, 2017	$	0.0650	$	1,701
June 1, 2017	June 16, 2017	June 30, 2017	$	0.0650	$	1,697
March 9, 2017	March 20, 2017	March 31, 2017	$	0.0650	$	1,691
					$	6,790

On August 9, 2017, a restricted stock award of 33,066 shares was granted to an executive that vested immediately. The fair value of the restricted stock award was measured based on the grant date market price of our common shares and expensed as of the vesting date. The restricted stock award contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until 90 days from the vesting date. The recipient of this restricted stock award is entitled to all of the rights of absolute ownership of the restricted stock from the date of grant, including the right to vote the shares and to receive dividends. Restricted stock awards are independent of option grants and are granted at no cost to the recipient other than applicable taxes owed by the recipient. The award was considered issued and outstanding from the vest date of grant.

On February 24, 2017, a restricted stock award of a total of 178,592 shares was granted to certain members of management that vested immediately. The fair value of each restricted stock award was measured based on the grant date market price of our common shares and expensed as of the vesting date. These restricted stock awards contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until three months from the vesting date. Recipients of these restricted stock awards were entitled to all the rights of absolute ownership of the restricted stock from the date of grant, including the right to vote the shares and to receive dividends. Restricted stock awards are independent of option grants and are granted at no cost to the recipient other than applicable taxes owed by the recipient. The awards were considered issued and outstanding from the vest date of grant.

2017 Acquisitions Broadcast

On November 22, 2017, we closed on the acquisition of radio station WSPZ-AM (now WWRC-AM) in Bethesda, Maryland for $0.6 million in cash from a related party. We began programming the station under an LMA within our Washington DC broadcast market on September 15, 2017. The accompanying Consolidated Statement of Operations reflects the operating results of this station as of the LMA date within our broadcast segment.

On September 15, 2017, we closed on the acquisition of real property, including the land, tower and broadcasting facilities, of radio station WSPZ-AM (now WWRC-AM) in Bethesda, Maryland for $1.5 million in cash. We recognized goodwill of approximately $13,000 associated with the going concern value of the existing income generating leases acquired with the broadcast tower.

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

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

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

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

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

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

2017 Acquisitions Digital Media

On August 31, 2017, we acquired the TeacherTube.com website and related assets for $1.1 million in cash. TeacherTube.com is an online instructional video sharing community for teachers, students and parents.

On August 31, 2017, we acquired the Intelligence Report newsletter and related assets valued at $2.5 million and we assumed deferred subscription liabilities of $2.9 million. We paid no cash to the seller upon closing.

On July 6, 2017, we acquired the TradersCrux.com website and related assets for $0.3 million in cash. As part of the purchase agreement, we may pay up to an additional $0.1 million in contingent earn-out consideration within one year upon the achievement of income benchmarks.

On June 8, 2017, we acquired a Portuguese Bible mobile application and related assets for $65,000 in cash. As part of the purchase agreement, we may pay up to an additional $20,000 in contingent earn-out consideration over the next twelve months based on the achievement of certain revenue benchmarks.

On March 15, 2017, we acquired the website prayers-for-special-help.com and related assets for $0.2 million in cash.

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A summary of our business acquisitions and asset purchases during the year ended December 31, 2017, none of which were individually or in the aggregate material to our consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Cost *(Dollars in thousands)*
November 22, 2017	WWRC-AM (formerly WSPZ-AM) in Bethesda, Maryland (business acquisition)	**$ 620**
September 15, 2017	Real property of radio station WSPZ-AM in Bethesda, Maryland (business acquisition)	**1,500**
August 31, 2017	TeacherTube.com (business acquisition)	**1,100**
August 31, 2017	Intelligence Reporter newsletter (business acquisition)	
July 24, 2017	FM Translator construction permit, Eaglemount, Washington (asset acquisition)	**40**
July 6, 2017	TradersCrux.com (business acquisition)	**298**
June 28, 2017	FM Translator construction permit, Festus, Missouri (asset acquisition)	**40**
June 8, 2017	Portuguese Bible Mobile Applications (business acquisition)	**82**
March 15, 2017	Prayers for Special Help (business acquisition)	**245**
March 14, 2017	FM Translator construction permit, Quartz Site, Arizona (asset purchase)	**20**
March 1, 2017	FM Translator construction permit, Roseburg, Oregon (asset purchase)	**45**
January 16, 2017	FM Translator, Astoria, Oregon (asset purchase)	**33**
January 1, 2017	FM Translator construction permit, Mohave Valley, Arizona (asset purchase)	**20**
		$ 4,043

The following table summarizes the total acquisition consideration for the year ended December 31, 2017:

Description	Total Consideration *(Dollars in thousands)*
Cash payments made upon closing	**$ 3,972**
Escrow deposits paid in prior years	**35**
Present value of estimated fair value of contingent earn-out consideration	**36**
Total purchase price consideration	**$ 4,043**

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

	Net Broadcast Assets Acquired	Net Digital Media Assets Acquired	Total Net Assets
		(Dollars in thousands)	
Assets			
Property and equipment	$ 1,915	$ 479	$ 2,394
Broadcast licenses	389		389
Goodwill	14	810	824
Customer lists and contracts		314	314
Domain and brand names		647	647
Subscriber base and lists		2,316	2,316
Non-compete agreements		11	11
	$ 2,318	**$ 4,577**	**$ 6,895**
Liabilities			
Deferred revenue	**$**	**(2,852)**	**(2,852)**
	$ 2,318	**$ 1,725**	**$ 4,043**

2017 Divestitures

On December 28, 2017, we sold real property, including the land, tower and broadcasting facilities, of radio station WSPZ-AM (now WWRC-AM) in Bethesda, Maryland for $1.9 million in cash. We recorded a pre-tax gain on the sale of approximately $0.4 million.

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

Due to operating results that did not meet management s expectations, we ceased publishing Preaching Magazine, YouthWorker Journal, FaithTalk Magazine and Homecoming. The Magazine upon delivery of the May 2017 print publications. On May 30, 2017, we received $10,000 in cash for Preaching Magazine and YouthWorker Journal. The purchaser assumed all deferred subscription liabilities for these publications resulting in a pre-tax gain on the disposition of assets of approximately $56,000.

On January 3, 2017, Word Broadcasting began operating our Louisville radio stations (WFIA-AM; WFIA-FM; WGTK-AM) under a twenty-four month TBA. We received $0.5 million in cash associated with an option for Word Broadcasting Network to acquire the radio stations during the term.

NOTE 4. CONTINGENT EARN-OUT CONSIDERATION

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. The fair value of the contingent earn-out consideration is estimated as of the acquisition date at the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments.

The present value of the expected future payouts is accreted to interest expense over the earn-out period. The fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* as Level 3 inputs discussed in detail in Note 12.

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

Hilary Kramer Financial Newsletters

We acquired the Hilary Kramer Financial Newsletters and related assets on August 9, 2018. We paid $0.4 million in cash upon closing and may pay up to an additional $0.1 million in contingent earn-out consideration over the next two years upon the achievement of income benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Hilary Kramer Newsletters to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $40,617, which was recorded at the discounted present value of $39,360. The discount will be accreted to interest expense over the two year earn-out period.

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimated revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.1 million. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the year ended December 31, 2018.

Just1Word Mobile Application

We acquired the Just1Word mobile application and related assets on August 7, 2018. We paid $0.3 million in cash upon closing and may pay up to an additional $0.1 million in contingent earn-out consideration over the next two years upon the achievement of income benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Just1Word to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $12,750, which was recorded at the discounted present value of $12,212. The discount will be accreted to interest expense over the two year earn-out period.

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimated revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.1 million. We recorded an increase of $4,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for the period ended December 31, 2018.

TradersCrux.com

We acquired the TradersCrux.com website and related assets for $0.3 million in cash on July 6, 2017. We paid $0.3 million in cash upon closing and may pay up to an additional $0.1 million in contingent earn-out consideration within one year upon the achievement of income benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of TradersCrux.com to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $18,750, which approximates the discounted present value due to the earn-out of less than one year.

We reviewed the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimates used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified, up to the maximum future value outstanding under the contract of $0.1 million. We recorded an increase in the estimated fair value of the contingent earn-out consideration of $31,000 for the year ended December 31, 2017 and $75,000 for the period ended June 30, 2018 that is reflected in our results of operations. The increases reflect the achievement of the revenue targets based on actual results that exceeded our original estimates. The earn-out period ended June 30, 2018 with $125,000 in cash made to the seller during the period ended September 30, 2018.

Portuguese Bible Mobile Application

We acquired a Portuguese Bible mobile application and related assets on June 8, 2017. We paid $65,000 in cash upon closing and may pay up to an additional $20,000 in contingent earn-out consideration during the twelve month period ended June 8, 2018 based on the achievement of certain revenue benchmarks as part of the purchase agreement. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of the Portuguese Bible mobile applications to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $16,500, which approximated the discounted present value due to the earn-out period of less than one year.

We reviewed the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimates used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified, up to the maximum future value outstanding under the contract of $20,000. We recorded an increase in the estimated fair value of the contingent earn-out consideration of $1,700 for the year ended December 31, 2017 and a net decrease of $3,200 for the period ended June 30, 2018 that is reflected in our operating results. As of the end of the earn-out period in June 2018, we paid a total of $15,000 in cash to the seller.

Turner Investment Products

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

We reviewed the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual subscriber revenues achieved and projected to the estimated subscriber revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified, up to the maximum future value outstanding under the contract of $0.1 million. As of the end of the earn-out period on September 13, 2017, we recorded a net decrease of $53,000 in the estimated fair value of the contingent earn-out consideration based on actual revenue that was below our estimates that is reflected in our results of operations for period ended December 31, 2017. We made no cash payments to the seller during the earn-out period.

Daily Bible Devotion

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

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period on May 6, 2017, we recorded a net decrease of $4,000 in the estimated fair value of the contingent earn-out consideration based on actual session results at the end of the earn-out period that was reflected in our operating results for the year ended December 31, 2017. We paid a total of $75,000 in cash to the seller over the two-year earn-out period ended May 6, 2017, with no cash payments made during the year ended December 31, 2017.

Bryan Perry Newsletters

On February 6, 2015, we acquired the assets and assumed the deferred subscription liabilities for Bryan Perry Newsletters, paying no cash to the seller upon closing. Future contingent earn-out consideration due to the seller is based upon net subscriber revenues achieved over a two-year period from date of close, of which we will pay the seller 50%. There is no minimum or maximum contractual amount due. Using a probability-weighted discounted cash flow model based on our revenue projections at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $171,000, which we recorded at the discounted present value of $158,000. The discount was accreted to interest expense over the two-year earn-out period. We recorded a net increase of $1,000 to the estimated fair value of the contingent earn-out consideration that was reflected in our results of operations for the six months ending June 30, 2017, due to actual net subscription revenues that were slightly higher than our prior estimate. We paid a total of $91,000 in cash to the seller over the two-year earn-out period ended February 6, 2017, of which approximately $14,000 was paid during the year ended December 31, 2017.

The following table reflects the changes in the present value of our acquisition-related estimated contingent earn-out consideration for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2018		
	Short-Term Accrued Expenses	**Long-Term Other Liabilities**	**Total**
		(Dollars in thousands)	
Beginning Balance as of January 1, 2018	**$ 69**	**$**	**$ 69**
Acquisitions	**38**	**13**	**51**
Accretion of acquisition-related contingent earn-out consideration	**(1)**		**(1)**
Change in the estimated fair value of contingent earn-out consideration	**74**	**2**	**76**
Reclassification of payments due in next 12 months to short-term			
Payments	**(140)**		**(140)**
Ending Balance as of December 31, 2018	**$ 40**	**$ 15**	**$ 55**

	Year Ended December 31, 2017		
	Short-Term Accrued Expenses	**Long-Term Other Liabilities**	**Total**
		(Dollars in thousands)	
Beginning Balance as of January 1, 2017	$ 66	$	$ 66
Acquisitions	36		36

Accretion of acquisition-related contingent earn-out consideration	4		4
Change in the estimated fair value of contingent earn-out consideration	(23)		(23)
Reclassification of payments due in next 12 months to short-term			
Payments	(14)		(14)
Ending Balance as of December 31, 2017	$ 69	$	$ 69

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NOTE 5. INVENTORIES

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

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

	As of December 31,	
	2017	**2018**
	(Dollars in thousands)	
Regnery® Publishing book inventories	$ 2,038	**$ 1,317**
Reserve for obsolescence Regnery® Publishing	(1,621)	**(930)**
Inventory, net Regnery® Publishing	417	**387**
Wellness products	$ 349	**$ 354**
Reserve for obsolescence Wellness products	(36)	**(64)**
Inventory, net Wellness products	313	**290**
Consolidated inventories, net	$ 730	**$ 677**

NOTE 6. PROPERTY AND EQUIPMENT

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

	As of December 31,	
	2017	**2018**
	(Dollars in thousands)	
Land	$ 32,320	**$ 31,822**
Buildings	28,962	**30,104**
Office furnishings and equipment	37,583	**36,791**
Office furnishings and equipment under capital lease obligations	244	**215**
Antennae, towers and transmitting equipment	85,632	**85,998**
Antennae, towers and transmitting equipment under capital lease obligations	795	
Studio, production and mobile equipment	29,697	**29,040**
Computer software and website development costs	24,477	**27,603**
Record and tape libraries	27	**17**
Automobiles	1,385	**1,570**
Leasehold improvements	19,003	**19,357**
Construction-in-progress	4,075	**4,833**

	$ 264,200	**$ 267,350**
Less accumulated depreciation	(164,720)	**(170,842)**
	$ 99,480	**$ 96,508**

Depreciation expense was approximately $12.0 million and $12.4 million for the years ended December 31, 2018 and 2017. Included in this amount is $53,000 and $93,000 for the years ended December 31, 2018 and 2017 on assets acquired under capital lease obligations. Accumulated depreciation associated with these capital lease obligations was $0.1 million and $0.8 million at December 31, 2018 and 2017.

We periodically review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. Our review requires us to estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements for our long-lived assets use significant observable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. There were no indications of impairment during the year ended December 31, 2018.

NOTE 7. BROADCAST LICENSES

We account for broadcast licenses in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize broadcast licenses, but rather test for impairment annually or more frequently if events or circumstances indicate that the value may be impaired. In the case of our broadcast radio stations, we would not be able to operate the properties without the related broadcast license for each property. Broadcast licenses are renewed with the Federal Communications Commission (FCC) every eight years for a nominal fee that is expensed as incurred. We continually monitor our stations compliance with the various regulatory requirements that are necessary for the FCC renewal and all of our broadcast licenses have been renewed at the end of their respective periods. We expect all of our broadcast licenses to be renewed in the future and therefore, we consider our broadcast licenses to be indefinite-lived intangible assets. We are not aware of any legal, competitive, economic or other factors that materially limit the useful life of our broadcast licenses. The weighted-average period before the next renewal of our broadcasting licenses is 2.6 years.

The following table presents the changes in broadcasting licenses that include acquisitions and divestitures of radio stations and FM translators as discussed in Note 3 Acquisitions and Recent Transactions.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Balance, beginning of period before cumulative loss on impairment	$ 494,058	**$ 486,455**
Accumulated loss on impairment	(105,541)	**(105,541)**
Balance, beginning of period after cumulative loss on impairment	388,517	**380,914**
Acquisitions of radio stations	191	**6,270**
Acquisitions of FM translators and construction permits	198	**19**
Capital projects to improve broadcast signal and strength	5	
Abandoned capital projects		**(40)**
Disposition of radio stations	(7,997)	**(8,013)**
Impairments based on the estimated fair value of broadcast licenses		**(2,834)**
Balance, end of period before cumulative loss on impairment	$ 486,455	**$ 484,691**
Accumulated loss on impairment	(105,541)	**(108,375)**
Balance, end of period after cumulative loss on impairment	$ 380,914	**$ 376,316**

Broadcast Licenses Impairment Test

We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

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

The first step of our impairment testing is to perform a qualitative assessment as to whether it is more likely than not that a broadcast license is impaired. This qualitative assessment requires significant judgment when considering the events and circumstances that may affect the estimated fair value of our broadcast licenses. We review the significant assumptions and key estimates applicable to our prior year estimated fair value calculations to assess if events and circumstances have occurred that could affect these assumptions and key estimates. We also review internal benchmarks and the economic performance for each market cluster to assess if it is more likely than not that impairment exists.

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

Of the 17 markets for which an independent third party fair value appraisal was obtained in the prior year, one market was sold, leaving 16 markets applicable to the current year. The table below presents the percentage within a range by which our prior year start-up income estimated fair value exceeds the current year carrying value of our broadcasting licenses:

	Geographic Market Clusters as of December 31, 2018 Percentage Range By Which 2017 Estimated Fair Value Exceeds 2018 Carrying Value			
	£25%	>26%-50%	>51% to 75%	> +than 76%
Number of accounting units	**9**	**1**	**4**	**2**
Broadcast license carrying value (in thousands)	**$ 200,098**	**$ 14,743**	**$ 52,051**	**$ 9,558**

The second part of our qualitative assessment consists of a review of the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income (SOI) defined as net broadcast revenue less broadcast operating expenses. See Item 6 Selected Financial Data within this annual report for information on SOI, a non-GAAP measure. Numerous trade organizations and analysts review these radio station sales to track SOI multiples applicable to each transaction. Based on published reports and analysis of market transactions, we believe industry benchmarks to be in the six to seven times cash flow range. We elected an SOI benchmark of four as a conservative indicator of fair value. Based on this qualitative review, we identified 16 markets subject to further testing that were not tested in the prior year and one market for which a valuation was obtained as part of the broadcast goodwill testing.

The table below shows the percentage within a range by which our estimated fair value exceeded the carrying value of our broadcasting licenses for these 16 remaining market clusters:

Geographic Market Clusters as of December 31, 2018
Tested due to SOI Multiple and length of time from prior valuation Percentage

	Range by Which Prior Valuation Exceeded 2017 Carrying Value			
	£25%	>26%-50%	>51% to 75%	> +than 76%
Number of accounting units		**2**		**14**
Broadcast license carrying value (in thousands)	**$**	**$ 7,692**	**$**	**$ 95,039**

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Based on our assessment we engaged Bond & Pecaro, an independent third-party appraisal and valuation firm, to assist us with determining the enterprise value of 26 of our market clusters. The estimated fair value of each market cluster was determined using the Greenfield Method, a form of the income approach. The premise of the Greenfield Method is that the value of a broadcast license is equivalent to a hypothetical start-up in which the only asset owned by the station as of the valuation date is the broadcast license. This approach eliminates factors that are unique to our operation of the station, including its format and historical financial performance. The method then assumes the entity has to purchase, build, or rent all of the other assets needed to operate a comparable station to the one in which the broadcast license is being utilized as of the valuation date. Cash flows are estimated and netted against all start-up costs, expenses and investments necessary to achieve a normalized and mature state of operations, thus reflecting only the cash flows directly attributable to the broadcast license. A multi-year discounted cash flow approach is then used to determine the net present value of these cash flows to derive an indication of fair value. For cash flows beyond the projection period, a terminal value is calculated using the Gordon constant growth model and long-term industry growth rate assumptions based on long-term industry growth and Gross Domestic Product (GDP) inflation rates.

The primary assumptions used in the Greenfield Method are:

(1) gross operating revenue in the station s designated market area,

(2) normalized market share,

(3) normalized profit margin,

(4) duration of the ramp-up period to reach normalized operations, (which was assumed to be three years),

(5) estimated start-up costs (based on market size),

(6) ongoing replacement costs of fixed assets and working capital,

(7) the calculations of yearly net free cash flows to invested capital; and

(8) amortization of the intangible asset, or the broadcast license.

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

Broadcast Licenses	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	9.0%	**9.0%**

Operating profit margin ranges	(13.9%) - 30.8%	**4.4% - 34.5%**
Long-term revenue growth rates	1.9%	**0.5% - 1.2%**

The risk-adjusted discount rate reflects the Weighted Average Cost of Capital (WACC) developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Based on our review and analysis, we determined that the carrying value of broadcast licenses in three of our market clusters were impaired as of the annual testing period ending December 31, 2018. We recorded an impairment charge of $2.8 million to the value of broadcast licenses in Cleveland, Louisville and Portland. The impairment charge was driven by a decrease in the projected long-term revenue growth rates for the broadcast industry. We believe that these decreases are indicative of trends in the industry as a whole and not unique to our company or operations.

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The table below presents the results of our impairment testing under the income approach for the 2018 annual testing period.

Market Cluster	Excess Fair Value 2018 Estimate
Atlanta, GA	21.2%
Cleveland, OH	(3.8%)
Columbus, OH	25.4%
Dallas, TX	45.9%
Denver, CO	951.3%
Detroit, MI	47.6%
Greenville, SC	46.5%
Honolulu, HI	131.1%
Houston, TX	1070.4%
Little Rock	21.0%
Los Angeles, CA	102.6%
Louisville, KY	(11.2%)
Nashville, TN	675.1%
New York, NY	35.4%
Philadelphia, PA	9.7%
Phoenix, AZ	51.0%
Pittsburgh, PA	292.7%
Portland, OR	(3.9%)
Sacramento, CA	3.1%
San Antonio, TX	63.1%
San Diego, CA	47.2%
San Francisco, CA	2.6%
Seattle, WA	597.4%
St Louis	329.5%
Tampa, FL	12.5%
Washington, D.C.	164.9%

NOTE 8. GOODWILL

We account for goodwill in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize goodwill, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year.

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The following table presents the changes in goodwill including business acquisitions as described in Note 3 Acquisitions and Recent Transactions.

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Balance, beginning of period before cumulative loss on impairment,	$ 27,642	**$ 28,453**
Accumulated loss on impairment	(2,029)	**(2,029)**
Balance, beginning of period after cumulative loss on impairment	25,613	**26,424**
Acquisitions of radio stations	14	**7**
Acquisitions of digital media entities	810	**986**
Disposition of radio stations		**(628)**
Sale of income generating broadcast business	(13)	
Balance, end of period before cumulative loss on impairment	28,453	**28,818**
Accumulated loss on impairment	(2,029)	**(2,029)**
Ending period balance	$ 26,424	**$ 26,789**

Goodwill Impairment Testing

When performing our annual impairment testing for goodwill, the fair value of each applicable accounting unit is estimated using a discounted cash flow analysis, which is a form of the income approach. The discounted cash flow analysis utilizes a five to ten year projection period to derive operating cash flow projections from a market participant view. We make certain assumptions regarding future revenue growth based on industry market data, historical performance and our expectations of future performance. We also make assumptions regarding working capital requirements and ongoing capital expenditures for fixed assets. Future net free cash flows are calculated on a debt free basis and discounted to present value using a risk adjusted discount rate. The terminal year value is calculated using the Gordon constant growth method and long-term growth rate assumptions based on long-term industry growth and GDP inflation rates. The resulting fair value estimates, net of any interest bearing debt, are then compared to the carrying value of each reporting unit s net assets.

The first step of our impairment testing is to perform a qualitative assessment to determine if events and circumstances have occurred that indicate it is more likely than not that the fair value of the assets, including goodwill, are less than their carrying values. We review the significant inputs used in our prior year fair value estimates to determine if any changes to those inputs should be made. We estimate the fair value using a market approach and compare the estimated fair value of each entity to its carrying value, including goodwill. Under the market approach, we apply a multiple of four to each entities operating income to estimate the fair value. We believe that a multiple of four is a conservative indicator of fair value as described above.

If the results of our qualitative assessment indicate that the fair value of a reporting unit may be less than its carrying value, we perform a second quantitative review of the reporting unit. We engage an independent third-party appraisal and valuation firm to assist us with determining the enterprise value as part of this quantitative review.

Goodwill Broadcast Markets

The unit of accounting we use to test goodwill associated with our radio stations is the cluster level, which we define as a group of radio stations operating in the same geographic market, sharing the same building and equipment and managed by a single general manager. 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. Seventeen of our 33 market clusters have goodwill associated with them as of our annual testing period ended December 31, 2018.

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

Broadcast Markets Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	9.0%	**9.0%**
Operating profit margin ranges	(7.8%) - 36.2%	**(4.1%) - 45.1%**
Long-term revenue growth rates	1.9%	**0.5% - 1.1%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Based on our qualitative review, we tested seven of these market clusters for impairment of goodwill. We engaged Bond & Pecaro, an independent appraisal and valuation firm, to assist us in estimating the enterprise of value our market clusters to test goodwill for impairment. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up. The analysis includes both an income and cost approach to valuation. The income approach uses a discounted cash flow projection while the cost approach, or stick value of the underlying assets is used.

Based on our review and analysis, we determined that no impairment charges were necessary to the carrying value of our broadcast market goodwill as of the annual testing period ended December 31, 2018.

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

	Broadcast Market Clusters as of December 31, 2018 Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill			
	< 10%	**>11% to 20%**	**>21% to 50%**	**> than 51%**
Number of accounting units	**2**	**3**	**6**	**6**
Carrying value including goodwill (*in thousands*)	**$ 49,525**	**$ 41,244**	**$ 100,121**	**$ 78,471**

Goodwill Broadcast Networks

The unit of accounting we use to test goodwill in our radio networks is the entity level, which includes SRN™, Todays Christian Music (TCM) and Singing News® Radio. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available. One of our networks, TCM, has goodwill associated with it as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Broadcast Network Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate		**10.0%**
Operating profit margin ranges		**14.8% - 15.7%**
Long-term revenue growth rates		**0.5%**

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The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Because TCM was not tested in the prior year, our qualitative analysis was limited and we could not make a determination that the goodwill was likely not to be impaired. We proceeded with step 2 to perform a quantitative review of the fair value. We engaged Bond & Pecaro, an independent appraisal and valuation firm, to assist us in estimating the enterprise of value of TCM to test goodwill for impairment.

Based on our review and analysis, we determined that no impairment charges were necessary to the carrying value of goodwill associated with our TCM Network as of the annual testing period ended December 31, 2018. The estimated fair value exceeded the carrying value by 94.6%.

Goodwill Digital Media

The unit of accounting we use to test goodwill in our digital media segment is the entity level, which includes Salem Web Network (SWN), SWN Spanish, Townhall.com®, Eagle Financial Publications and Newport National Health. The financial statements for SWN include the operating results and cash flows for our Christian content websites and our church product websites. The financial statements for Townhall.com® reflect the operating results for each of our conservative opinion websites. Eagle Financial Publications include our investing websites and related digital publications. The financial statements for Newport National Health include our e-commerce website. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available.

Four of our digital media businesses had goodwill associated with them as of our annual testing period ended December 31, 2018. We tested one of these entities for impairment because it was note tested in the prior year. We engaged Bond & Pecaro, an independent appraisal and valuation firm, to assist us in estimating the enterprise of value of this entity to test goodwill for impairment. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Digital Media Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate	10.0%	**10.0%**
Operating profit margin ranges	8.0% - 36.0%	**8.5% - 17.2%**
Long-term revenue growth rates	1.9% - 2.0%	**1.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Based on our review and analysis, we determined that that no impairment charges were necessary to the carrying value of goodwill associated with our digital media entities.

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

	Digital Media Entities as of December 31, 2018 Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill			
	< 10%	>10% to 20%	>21% to 50%	> than 51%
Number of accounting units	**1**	**2**		**1**
Carrying value including goodwill (*in thousands*)	**$ 361**	**$ 9,836**	**$**	**$ 27,821**

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Goodwill Publishing

The unit of accounting we use to test goodwill in our publishing segment is the entity level, which includes Regnery® Publishing, Salem Author Services and *Singing News*®. Regnery® Publishing is a book publisher based in Washington DC that operates from a stand-alone facility under one general manager, with operating results and cash flows of reported at the entity level. Salem Author Services operates from a stand-alone facility in Orlando, Florida under one general manager who is responsible for the operating results and cash flows. *Singing News*® produces and distributes a print magazine. The entity level is the level reviewed by management and the lowest level for which discrete financial information is available.

Two of our publishing entities have goodwill associated with them as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up. We engaged Bond & Pecaro, an independent appraisal and valuation firm, to assist us in estimating the enterprise of value this publishing entity to test goodwill for impairment. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

Publishing Enterprise Valuations	December 31, 2017	**December 31, 2018**
Risk adjusted discount rate	10.0%	**10.0%**
Operating margin ranges	5.0% - 5.5%	**4.0% - 5.0%**
Long-term revenue growth rates	1.9%	**1.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Based on our review and analysis, we determined that that no impairment charges were necessary to the carrying value of goodwill associated with our publishing entities.

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

	Publishing Entities as of December 31, 2018 Percentage Range By Which Estimated Fair Value Exceeds Carrying Value Including Goodwill			
	< 10%	>11% to 20%	>21% to 50%	> than 51%
Number of accounting units		**1**		**1**
Carrying value including goodwill (*in thousands*)	**$**	**$ 3,976**	**$**	**$ 847**

NOTE 9. OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

Other indefinite-lived intangible consists of mastheads, or the graphic elements that identify our publications to readers and advertisers. These include customized typeset page headers, section headers, and column graphics as well as other name and identity stylized elements within the body of each publication. We are not aware of any legal, competitive, economic or other factors that materially limit the useful life of our mastheads. We account for mastheads in accordance with FASB ASC Topic 350 *Intangibles Goodwill and Other*. We do not amortize mastheads, but rather test for impairment annually or more frequently if events or circumstances indicate that an asset may be impaired.

We regularly perform quantitative reviews of mastheads due to the low margins by which the estimated fair value has exceeded our carrying value. We engaged Bond & Pecaro, an independent appraisal and valuation firm, to assist us in estimating the fair value of mastheads as of the annual testing period ended December 31, 2018. The estimated fair value of mastheads is determined using a Relief from Royalty method, a form of the income approach.

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

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

Mastheads	December 31, 2017	**December 31, 2018**
Risk-adjusted discount rate	10.0%	**10.0%**
Long-term revenue growth rates	(3.2%) - 0.9%	**(4.0%) - (1.0%)**
Royalty rate	3.0%	**3.0%**

The risk-adjusted discount rate reflects the WACC developed based on data from same or similar industry participants and publicly available market data as of the measurement date.

Based on our review and analysis, we recorded an impairment charge to mastheads of $36,000 as of the annual testing period ended December 31, 2018. The impairment charge was driven by decreases in the projected long-term revenue growth rates for the print magazine industry. We believe that these decreases are indicative of trends in the industry as a whole and not unique to our company or operations.

NOTE 10. AMORTIZABLE INTANGIBLE ASSETS

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

	As of December 31, 2018		
	Cost	Accumulated Amortization	**Net**
		(Dollars in thousands)	
Customer lists and contracts	**$ 24,673**	**$ (21,798)**	**$ 2,875**
Domain and brand names	**21,358**	**(16,758)**	**4,600**
Favorable and assigned leases	**2,256**	**(1,953)**	**303**
Subscriber base and lists	**9,672**	**(7,198)**	**2,474**
Author relationships	**2,771**	**(2,454)**	**317**
Non-compete agreements	**2,048**	**(1,641)**	**407**
Other amortizable intangible assets	**1,666**	**(1,378)**	**288**
	$ 64,444	**$ (53,180)**	**$ 11,264**

	As of December 31, 2017		
	Cost	Accumulated Amortization	Net
	(Dollars in thousands)		
Customer lists and contracts	$ 22,865	$ (20,888)	$ 1,977
Domain and brand names	20,109	(14,650)	5,459
Favorable and assigned leases	2,379	(2,028)	351
Subscriber base and lists	8,797	(4,701)	4,096
Author relationships	2,771	(2,237)	534
Non-compete agreements	2,029	(1,342)	687
Other amortizable intangible assets	1,333	(1,333)	
	$60,283	$(47,179)	$13,104

Amortization expense was approximately $6.2 million and $4.6 million for the years ended December 31, 2018 and 2017. Based on the amortizable intangible assets as of December 31, 2018, we estimate amortization expense for the next five years to be as follows:

Year ended December 31,	Amortization Expense
	(Dollars in thousands)
2019	$ 4,699
2020	3,275
2021	1,654
2022	969
2023	459
Thereafter	208
Total	$ 11,264

NOTE 11. LONG-TERM DEBT

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

6.75% Senior Secured Notes

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

The Notes and the ABL Facility are secured by liens on substantially all of our and the Subsidiary Guarantors assets, other than certain excluded assets. The ABL Facility has a first-priority lien on our and the Subsidiary Guarantors accounts receivable, inventory, deposit and securities accounts, certain real estate and related assets (the ABL Priority

Collateral). The Notes are secured by a first-priority lien on substantially all other assets of ours and the Subsidiary Guarantors (the Notes Priority Collateral). There is no direct lien on our FCC licenses to the extent prohibited by law or regulation.

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

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

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

Based on the balance of the Notes currently outstanding, we are required to pay $15.9 million per year in interest on the Notes. As of December 31, 2018, accrued interest on the Notes was $1.3 million.

We incurred debt issuance costs of $6.3 million that were recorded as a reduction of the debt proceeds that are being amortized to non-cash interest expense over the life of the Notes using the effective interest method. During the years ended December 31, 2018 and 2017, $0.9 million and $0.6 million, respectively, of debt issuance costs associated with the Notes was amortized to interest expense.

We may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to repurchase the Notes in open market transactions, privately negotiated transactions, by tender offer or otherwise, as market conditions warrant.

Based on the then existing market conditions, we completed repurchases of our 6.75% Senior Secured Notes at amounts less than face value as follows:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
December 21, 2018	$ 2,000	$ 1,835	91.75%	$ 38	$ 127
December 21, 2018	1,850	1,702	92.00%	35	113
December 21, 2018	1,080	999	92.50%	21	60
November 17, 2018	1,500	1,357	90.50%	29	114
May 4, 2018	4,000	3,770	94.25%	86	144
April 10, 2018	4,000	3,850	96.25%	87	63
April 9, 2018	2,000	1,930	96.50%	43	27
	$ 16,430	$ 15,443			

Asset-Based Revolving Credit Facility

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

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

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

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

The Credit Agreement provides for the following events of default: (i) default for non-payment of any principal or letter of credit reimbursement when due or any interest, fees or other amounts within five days of the due date;

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

We incurred debt issue costs of $0.7 million that were recorded as an asset and are being amortized to non-cash interest expense over the term of the ABL Facility using the effective interest method. During the years ended December 31, 2018 and 2017, $0.2 million of debt issue costs associated with the Notes was amortized to interest expense. At December 31, 2018, the blended interest rate on amounts outstanding under the ABL Facility was 4.45%.

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

Prior Term Loan B and Revolving Credit Facility

Our prior credit facility consisted of a term loan of $300.0 million (Term Loan B) and a revolving credit facility of $25.0 million (Revolver). The Term Loan B was issued at a discount for total net proceeds of $298.5 million. The discount was amortized to non-cash interest expense over the life of the loan using the effective interest method. For the year ended December 31, 2017 approximately $74,000 of the discount associated with the Term Loan B was amortized to interest expense.

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

The following payments or prepayments of the Term Loan B were made during the year ended December 31, 2017 through the date of the termination, including interest through the payment date as follows:

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

Debt issuance costs were amortized to non-cash interest expense over the life of the Term Loan B using the effective interest method. For the year ended December 31, 2017 approximately $203,000 of the debt issuance costs associated with the Term Loan B was amortized to interest expense.

Debt issuance costs associated with the Revolver were recorded as an asset in accordance with ASU 2015-15. The costs were amortized to non-cash interest expense over the five year life of the Revolver using the effective interest method based on an imputed interest rate of 4.58%. For the year ended December 31, 2017 we recorded amortization of deferred financing costs of approximately $26,000.

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Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2017	As of December 31, 2018
	(Dollars in thousands)	
6.75% Senior Secured Notes	$ 255,000	**$ 238,570**
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	(5,774)	**(4,540)**
6.75% Senior Secured Notes net carrying value	249,226	**234,030**
Asset-Based Revolving Credit Facility principal outstanding	9,000	**19,660**
Capital leases and other loans	462	**163**
Long-term debt and capital lease obligations less unamortized debt issuance costs	258,688	**253,853**
Less current portion	(9,109)	**(19,718)**
Long-term debt and capital lease obligations less unamortized debt issuance costs, net of current portion	$ 249,579	**$ 234,135**

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of December 31, 2018:

Outstanding borrowings of $19.7 million under the ABL Facility, with interest spread ranging from 0.50% to 1.00% for base rate borrowings and 1.50% to 2.00% for LIBOR rate borrowings;

$238.6 million aggregate principal amount of Notes with semi-annual interest payments at an annual rate of 6.75%; and

Commitment fee of 0.25% to 0.375% per annum on the unused portion of the ABL Facility.

Other Debt

We have several capital leases related to office equipment. The obligation recorded at December 31, 2018 and December 31, 2017 represents the present value of future commitments under the capital lease agreements.

Maturities of Long-Term Debt and Capital Lease Obligations

Principal repayment requirements under all long-term debt agreements outstanding at December 31, 2018 for each of the next five years and thereafter are as follows:

	Amount *(Dollars in thousands)*
For the Year Ended December 31,	
2019	$ 19,718
2020	39
2021	31
2022	27
2023	8
Thereafter	238,570
	$ 258,393

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NOTE 12. FAIR VALUE MEASURMENTS AND DISCLOSURES

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

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

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

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

As of December 31, 2018, 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 amount of the Notes at December 31, 2018 was $238.6 million, compared to the estimated fair value of $218.3 million based on the prevailing interest rates and trading activity of our Notes. The carrying value of the ABL Facility and capital leases approximates the fair value due to the variable rates and short-term nature of such instruments.

We have certain assets that are measured at fair value on a non-recurring basis that are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3 due to the subjective nature of the unobservable inputs used when estimating the fair value. During the fourth quarter of 2018, we estimated the fair value of broadcast licenses and mastheads using significant unobservable inputs (Level 3). We adjusted three of our broadcast market clusters and mastheads to their estimated fair value and recorded a combined impairment loss of $2.9 million. See Note 7 Broadcast Licenses and Note 9 Other Indefinite Lived Intangible Assets.

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

	December 31, 2018			
	Carrying Value on Balance Sheet	Fair Value Measurement Category		
		Level 1	Level 2	Level 3
		(Dollars in thousands)		
Assets				

Estimated fair value of other indefinite-lived intangible assets	**$ 277**	$	$	$ 277
Liabilities:				
Estimated fair value of contingent earn-out consideration included in accrued expenses	**55**			55
Long-term debt and capital lease obligations less unamortized debt issuance costs	**253,853**		233,575	

NOTE 13. INCOME TAXES

We recognize deferred tax assets and liabilities for future tax consequences attributable to differences between our consolidated financial statement carrying amount of assets and liabilities and their respective tax bases. We measure these deferred tax assets and liabilities using enacted tax rates expected to apply in the years in which these temporary differences are expected to reverse. We recognize the effect on deferred tax assets and liabilities resulting from a change in tax rates in income in the period that includes the date of the change. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. We have calculated the impact of the Act in our year ending December 31, 2018 income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing.

For financial reporting purposes, we recorded a valuation allowance of $5.4 million as of December 31, 2018 to offset the deferred tax assets related to the state net operating loss carryforwards. For financial reporting purposes, we recorded a valuation allowance of $6.2 million as of December 31, 2017 to offset $6.0 million of the deferred tax assets related to the state net operating loss carryforwards and $0.2 million associated with asset impairments.

The consolidated provision for (benefit from) income taxes is as follows:

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Current:		
Federal	$	**$**
State	63	**282**
	63	**282**
Deferred:		
Federal	(21,167)	**(658)**
State	234	**2,849**
	(20,933)	**2,191**
Provision for (benefit from) income taxes	$ (20,870)	**$ 2,473**

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Consolidated deferred tax assets and liabilities consist of the following:

	As of December 31, 2017	As of December 31, **2018**
	(Dollars in thousands)	
Deferred tax assets:		
Financial statement accruals not currently deductible	$ 6,220	**$ 6,822**
Net operating loss, AMT credit and other carryforwards	55,720	**50,067**
State taxes	103	**124**
Other	2,191	**3,969**
Total deferred tax assets	64,234	**60,982**
Valuation allowance for deferred tax assets	(6,154)	**(5,371)**
Net deferred tax assets	$ 58,080	**$ 55,611**
Deferred tax liabilities:		
Excess of net book value of property and equipment and software for financial reporting purposes over tax basis	$ 1,218	**$ 2,763**
Excess of net book value of intangible assets for financial reporting purposes over tax basis	89,898	**88,112**
Other	45	**8**
Total deferred tax liabilities	91,161	**90,883**
Net deferred tax liabilities	$ (33,081)	**$ (35,272)**

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

	As of December 31, 2017	As of December 31, **2018**
	(Dollars in thousands)	
Deferred income tax asset per balance sheet	$ 1,070	$
Deferred income tax liability per balance sheet	(34,151)	**(35,272)**
	$ (33,081)	**$ (35,272)**

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

	Year Ended December 31, 2017	Year Ended December 31, **2018**
	(Dollars in thousands)	

Statutory federal income tax (statutory tax rate)	$ 1,321	**$ (151)**
Effect of state taxes, net of federal	(1,207)	**2,284**
Permanent items	458	**318**
State rate change	(179)	**248**
Valuation allowance	1,667	**(147)**
Tax Cuts and Jobs Act of 2017	(23,000)	
Other, net	70	**(79)**
Provision for income taxes	$ (20,870)	**$ 2,473**

At December 31, 2018, we had net operating loss carryforwards for federal income tax purposes of approximately $148.1 million that expire in 2021 through 2038 and for state income tax purposes of approximately $783.8 million that expire in years 2019 through 2038. For financial reporting purposes at December 31, 2018, we had a valuation allowance of $5.4 million, net of federal benefit, to offset the deferred tax assets related to the state net operating loss carryforwards. Our evaluation was performed for tax years that remain subject to examination by major tax jurisdictions, which range from 2014 through 2017.

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

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

The Company and its subsidiaries, incident to its business activities, are parties to a number of legal proceedings, lawsuits, arbitration and other claims. Such matters are subject to many uncertainties and outcomes that are not predictable with assurance. The company evaluates claims based on what we believe to be both probable and reasonably estimable. 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 consolidated financial position, results of operations or cash flows.

The Company leases various land, offices, studios and other equipment under operating leases that generally expire over the next ten to twenty-five years. The majority of these leases are subject to escalation clauses and may be renewed for successive periods ranging from one to five years on terms similar to current agreements and except for specified increases in lease payments. Rental expense included in operating expense under all lease agreements was $20.2 million and $20.3 million in 2018 and 2017.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2018, are as follows:

	Related Parties	Other	Total
		(Dollars in thousands)	
2019	**$ 1,730**	**$ 11,633**	**$ 13,363**
2020	**1,763**	**11,592**	**13,355**
2021	**1,767**	**10,596**	**12,363**
2022	**1,730**	**9,490**	**11,220**
2023	**1,234**	**8,584**	**9,818**
Thereafter	**13,364**	**48,109**	**61,473**
	$ 21,588	**$ 100,004**	**$ 121,592**

NOTE 15. STOCK INCENTIVE PLAN

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

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

Under the Plan, the Board, or a committee appointed by the Board, may impose restrictions on the exercise of awards during pre-defined blackout periods. Insiders may participate in plans established pursuant to Rule 10b5-1 under the Exchange Act that allow them to exercise awards subject to pre-established criteria.

We recognize non-cash stock-based compensation expense based on the estimated fair value of awards in accordance with FASB ASC Topic 718 *Compensation Stock Compensation*. Stock-based compensation expense fluctuates over time as a result of the vesting periods for outstanding awards and the number of awards that actually vest. We adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* as of January 1, 2017. The adoption of this ASU did not materially impact our financial position, results of operations, or cash flows.

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The following table reflects the components of stock-based compensation expense recognized in the Consolidated Statements of Operations for the years ended December 31, 2018 and 2017:

	Year Ended December 31,	
	2017	**2018**
	(Dollars in thousands)	
Stock option compensation expense included in unallocated corporate expenses	153	**$ 329**
Restricted stock shares compensation expense included in unallocated corporate expenses	1,100	
Stock option compensation expense included in broadcast operating expenses	33	**122**
Restricted stock shares compensation expense included in broadcast operating expenses	224	
Stock option compensation expense included in digital media operating expenses	30	**77**
Restricted stock shares compensation expense included in digital media operating expenses	124	
Stock option compensation expense included in publishing operating expenses	21	**15**
Restricted stock shares compensation expense included in publishing operating expenses	36	
Total stock-based compensation expense, pre-tax	1,721	**$ 543**
Tax expense from stock-based compensation expense	(688)	**(141)**
Total stock-based compensation expense, net of tax	1,033	**$ 402**

Stock option and restricted stock grants

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

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

The fair value of each award is estimated as of the date of the grant using the Black-Scholes valuation model. The expected volatility reflects the consideration of the historical volatility of our common stock as determined by the closing price over a six to ten year term commensurate with the expected term of the award. Expected dividends reflect the amount of quarterly distributions authorized and declared on our Class A and Class B common stock as of the grant date. The expected term of the awards are based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of

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the award are based on the U.S. Treasury yield curve in effect during the period the options were granted. We have used historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the valuation model. These estimates have approximated our actual forfeiture rates.

There were no stock options granted during the year ended December 31, 2017. The weighted-average assumptions used to estimate the fair value of the stock options and restricted stock awards using the Black-Scholes valuation model were as follows for the years ended December 31, 2018:

	Year Ended December 31, 2018
Expected volatility	41.84%
Expected dividends	7.89%
Expected term (in years)	7.4
Risk-free interest rate	2.93%

Activity with respect to the company s option awards during the two years ended December 31, 2018 is as follows (Dollars in thousands, except weighted average exercise price and weighted average grant date fair value):

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2017	1,720,000	$ 5.12	$ 2.89	4.5 years	$ 2,428
Granted					
Exercised	(127,663)	4.02	2.03		401
Forfeited or expired	(163,875)	5.75	2.99		136
Outstanding at December 31, 2017	1,428,462	$ 5.20	$ 2.96	3.7 years	$ 653
Exercisable at December 31, 2017	934,959	5.66	3.77	2.7 years	414
Expected to Vest	468,581	$ 5.21	$ 2.98	3.7 years	$ 239
Outstanding at January 1, 2018	**1,428,462**	**$ 5.20**	**$ 2.96**	**3.7 years**	**$ 653**
Granted	**650,000**	**3.30**	**1.86**		
Exercised	**(17,615)**	**2.49**	**2.11**		**35**
Forfeited or expired	**(79,875)**	**4.42**	**3.20**		**28**
Outstanding at December 31, 2018	**1,980,972**	**$ 4.63**	**$ 2.61**	**4.1 years**	**$**
Exercisable at December 31, 2018	**1,055,716**	**5.51**	**3.38**	**2.2 years**	
Expected to Vest	**878,531**	**$ 4.65**	**$ 2.63**	**4.0 years**	**$**

The aggregate intrinsic value represents the difference between the company s closing stock price on December 31, 2018 of $2.09 and the option exercise price of the shares for stock options that were in the money, multiplied by the number of shares underlying such options. The total fair value of options vested during the years ended December 31, 2018 and 2017 was $0.3 million and $0.9 million, respectively.

As of December 31, 2018, there was $0.3 million of total unrecognized compensation cost related to non-vested stock option awards. This cost is expected to be recognized over a weighted-average period of 1.9 years.

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There were no restricted stock awards granted during the year ended December 31, 2018. The fair values of shares of restricted stock awards are determined based on the closing price of the company s common stock on the grant dates. Activity with respect to the company s restricted stock awards during the year ended December 31, 2017 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Non-Vested at January 1, 2017		$	years	$
Granted	211,658	7.01		1,484
Lapse of restrictions	(211,658)	(7.01)		1,488
Forfeited or expired				
Outstanding at December 31, 2017		$		$

Additional information regarding options outstanding as of December 31, 2018, is as follows:

Range of Exercise Prices	Options	Weighted Average Contractual Life Remaining (Years)	Weighted Average Exercise Price	Exercisable Options	Weighted Average Exercise Price
$ 2.38 - $3.00	308,755	2.5	$ 2.67	240,755	$ 2.65
$ 3.01 - $3.28	571,000	6.7	3.25		
$ 3.29 - $4.63	75,750	6.4	3.73	4,250	3.99
$ 4.64 - $4.85	421,292	4.7	4.85	212,036	4.85
$ 4.86 - $6.65	34,625	1.1	5.39	32,125	5.43
$ 6.66 - $8.76	569,550	1.7	6.99	566,550	6.99
	1,980,972	**4.1**	**$ 4.63**	**1,055,716**	**$ 5.51**

NOTE 16. RELATED PARTY TRANSACTIONS

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

A summary of our related party transactions for the years ending December 31, 2018 and 2017 is as follows:

On September 11, 2018, we acquired radio station KTRB-AM in San Francisco for $5.1 million in cash from a related party. The acquisition was accounted for as an asset purchase with transaction costs of $0.2 million capitalized. We had been operating the radio station under an LMA since June 24, 2016. The accompanying Consolidated Statements of Operations reflect the operating results of this station as of the LMA date within the broadcast operating segment. Our Nominating and Corporate Governance Committee reviewed the transaction, including an appraisal of the station performed by a licensed broker and reports related to the financial performance of the station during the LMA period, and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm s length dealings with an unrelated third-party.

On November 22, 2017, we closed on the acquisition of radio station WSPZ-AM (now WWRC-AM) in Bethesda, Maryland for $0.6 million in cash from AM 570, LLC, a company owned by Edward G. Atsinger III, Chief Executive Officer and Stuart W. Epperson, Chairman of the Board. We began programming the station within our Washington DC market as of September 15, 2017 under a LMA with AM 570 LLC. We assumed the lease agreement for the land, tower and broadcasting equipment of WSPZ-AM (now WWRC-AM) as of the closing date.

During the year ended December 31, 2017, we paid approximately $21,000 to Delmarva Educational Association Corporation, a related party entity which Nancy A. Epperson, the wife of the Chairman of the Board, and Stuart W. Epperson Jr., the son of the Chairman of the Board, serve as directors. The payments represented commissions due to Delmarva under a revenue sharing promotion.

On December 15, 2016, we entered into a related party LMA with East Bay Broadcasting, LLC, a company owned by Edward G. Atsinger III, Chief Executive Officer and Stuart W. Epperson, Chairman of the Board, to operate radio station KTRB-AM in San Francisco, California. During the years ended December 31, 2018 and 2017, we paid approximately $0.4 million and $0.5 million, respectively, to Easy Bay Broadcasting, LLC under the LMA.

Leases with Principal Stockholders

A trust controlled by the Chief Executive Officer of the company, Edward G. Atsinger III, owns real estate on which assets of one radio station are located. Salem has entered into a lease agreement with this trust. Rental expense related to this lease included in operating expense for 2018 and 2017 amounted to $197,000 and $191,000. Mr. Ted Atsinger, son of the CEO is the beneficiary and/or successor trustee.

Land and buildings occupied by various Salem radio stations are leased from entities owned by the company s CEO and its Chairman of the Board. Rental expense under these leases included in operating expense for each of the years ending December 31, 2018 and 2017 was $1.5 million.

On September 15, 2017, we entered a lease with AM 570, LLC, a company owned by Edward G. Atsinger III, Chief Executive Officer and Stuart W. Epperson, Chairman of the Board for land, tower and broadcasting facilities, of radio station WSPZ-AM (now WWRC-AM) in Bethesda, Maryland. Our Nominating and Corporate Governance Committee reviewed the lease terms and determined that the terms of the transaction were no less favorable to Salem than those that would be available in a comparable transaction in arm s length dealings with an unrelated third party. We sold the related land, tower and broadcasting facility to an unrelated third party on December 28, 2017. The unrelated third party assumed the existing income generating leases acquired with the broadcast tower, including the AM 570 LLC lease.

Radio Stations Owned by the Epperson s

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

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

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Radio Stations Owned by Mr. Hinz

Mr. Hinz, a director of the company, through companies or entities controlled by him, operates three radio stations in Southern California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language. Mr. Hinz notified the company on December 12, 2018 of his immediate desire to retire from the board.

Truth For Life Mr. Riddle

Truth For Life is a non-profit organization that is a customer of Salem Media Group, Inc. During 2018 and 2017 the company billed Truth For Life approximately $2.4 million and $2.1 million, respectively, for airtime on its stations. The company had receivable balances of $0.2 million related to these sales at December 31, 2018, and 2017. Mr. Riddle, a director of the company, joined the Truth for Life board in October 2010 and remains a member of this board.

Know the Truth Mr. Riddle and Mr. Lewis

Know the Truth is a non-profit organization that is a customer of Salem Media Group, Inc. During 2018 and 2017, the company billed Know the Truth approximately $1.4 million and $1.2 million, respectively, for airtime on its stations. The company had receivable balances of $1.1 million and $0.7 million related to these sales at December 31, 2018 and 2017, respectively. Mr. Riddle, a director of the company, joined the Know the Truth board in 2010 and remains a member of this board. Mr. Lewis, a director of the company, joined the Know the Truth board in 2014 and remains a member of this board.

The Truth Network Stuart W. Epperson Jr.

The Truth Network provides original and broadcast Christian radio that is a customer of Salem Media Group, Inc. During 2018 and 2017, the company billed The Truth Network approximately $15,000 and $11,000 for airtime on its stations. The company had receivable balances of approximately $7,000, and $3,000 related to these sales at December 31, 2018, and 2017, respectively. Mr. Epperson Jr. is the CEO, President and stakeholder of the company.

Oaks Christian School Mr. Edward Atsinger III

Oaks Christian School is a customer of Salem Media Group, Inc. During 2018 and 2017 the company billed Oaks Christian approximately $32,000 and $5,000 for airtime on its stations. The company had receivable balances of approximately $9,000 at December 31, 2018 related to these sales. Mr. Atsinger joined the board in 2000 and remains a member of this board.

Split-Dollar Life Insurance

Salem has maintained split-dollar life insurance policies for its Chairman and Chief Executive Officer since 1997. Since 2003, the company has been the owner of the split-dollar life insurance policies and is entitled to recover all of the premiums paid on these policies. The company records an asset based on the lower of the aggregate premiums paid or the insurance cash surrender value. The premiums were $386,000 for each of the years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017, the company recorded the net cash surrender value of these policies as assets of $1.8 million and $1.4 million, respectively. The cumulative premiums paid on these policies were $3.1 million and $2.8 million, respectively. Benefits above and beyond the cumulative premiums paid will go to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

Transportation Services Supplied by Atsinger Aviation

From time to time, the company rents aircraft from a company owned by Edward G. Atsinger III, Chief Executive Officer and director of Salem. As approved by the independent members of the company s board of directors, the company rents these aircraft on an hourly basis at what the company believes are market rates and uses them for general corporate needs. Total rental expense for these aircraft for the years ended December 31, 2018 and 2017 was approximately $198,000 and $217,000, respectively.

NOTE 17. DEFINED CONTRIBUTION PLAN

We maintain a 401(k) defined contribution plan (the 401(k) Plan), which covers eligible employees as defined in the 401(k) Plan. Participants are allowed to make non-forfeitable contributions of up to 60% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The company match is currently 50% on the first 5% of the amounts contributed by each participant. During each of the years ended December 31, 2018 and 2017, the company contributed and expensed $1.9 million into the 401(k) Plan.

NOTE 18. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. We recorded non-cash stock based compensation expense of $0.5 million and $1.7 million to additional paid-in capital during the years ended December 31, 2018 and 2017, respectively.

While we intend to pay regular quarterly distributions, the actual declaration of such future distributions and the establishment of the per share amount, record dates, and payment dates are subject to final determination by our Board of Directors and dependent upon future earnings, cash flows, financial and legal requirements, and other factors. Any future distributions are likely to be comparable to prior declarations unless there are changes in expected future earnings, cash flows, financial and legal requirements.

The following table shows distributions that have been declared and paid since January 1, 2017:

Announcement Date	Payment Date	Amount Per Share	Cash Distributed (*in thousands*)
November 26, 2018	December 21, 2018	$0.0650	$1,702
September 5, 2018	September 28, 2018	$0.0650	$1,702
May 31, 2018	June 29, 2018	$0.0650	$1,701
February 28, 2018	March 28, 2018	$0.0650	$1,701
December 7, 2017	December 29, 2017	$0.0650	$1,701
September 12, 2017	September 29, 2017	$0.0650	$1,701
June 1, 2017	June 30, 2017	$0.0650	$1,697
March 9, 2017	March 31, 2017	$0.0650	$1,691

Based on the number of shares of Class A and Class B currently outstanding, we expect to pay total annual distributions of approximately $6.8 million for the year ended December 31, 2019.

NOTE 19. SEGMENT DATA

FASB ASC Topic 280, *Segment Reporting*, requires companies to provide certain information about their operating segments. We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which also qualify as reportable segments. Our operating segments reflect how our chief operating decision makers, which we define as a collective group of senior executives, assesses the performance of each operating segment and determines the appropriate allocations of resources to each segment. We continually review our operating segment classifications to align with operational changes in our business and may make changes as necessary.

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

Segment performance, as defined by Salem, is not necessarily comparable to other similarly titled captions of other companies.

Broadcasting

Our foundational business is radio broadcasting, which includes the ownership and operation of radio stations in large metropolitan markets. Our broadcasting segment includes our national networks and national sales firms. National companies often prefer to advertise across the United States as an efficient and cost effective way to reach their target audiences. Our national platform under which we offer radio airtime, digital campaigns and print advertisements can benefit national companies by reaching audiences throughout the United States.

Salem Radio Network™ (SRN™), based in Dallas, Texas, develops, produces and syndicates a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and News Talk stations. SRN™ delivers programming via satellite to approximately 3,200 affiliated radio stations throughout the United States, including several of our Salem-owned stations. SRN™ operates five divisions, SRN™ Talk, SRN™ News, SRN™ Websites, SRN™ Satellite Services and Salem Music Network that includes Today s Christian Music (TCM) and Singing News® Radio.

Salem Media Representatives (SMR) is our national advertising sales firm with offices in 14 U.S. cities. SMR specializes in placing national advertising on Christian and talk formatted radio stations as well as other commercial radio station formats. SMR sells commercial airtime to national advertisers on our radio stations and through our networks, as well as for independent radio station affiliates. SMR also contracts with independent radio stations to create custom advertising campaigns for national advertisers to reach multiple markets.

During 2018, we launched Salem Surround, a national multimedia advertising agency with locations in 35 markets across the United States. Salem Surround offers a comprehensive suite of digital marketing services to develop and execute audience-based marketing strategies for clients on both the national and local level. Salem Surround specializes in digital marketing services for each of our radio stations and websites as well as provides a full-service digital marketing strategy for each of our clients.

Digital Media

Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. SWN websites include Christian content websites; BibleStudyTools.com, Crosswalk.com®, GodVine.com, iBelieve.com, GodTube®.com, OnePlace .com, Christianity.com, GodUpdates.com, CrossCards .com, ChristianHeadlines.com, LightSource.com, AllCreated.com, ChristianRadio.com, CCMmagazine.com, SingingNews®.com and SouthernGospel.com and our conservative opinion websites; collectively known as Townhall Media, include Townhall.com®, HotAir .com, Twitchy®.com, RedState®.com, BearingArms.com, and ConservativeRadio.com. We also publish digital newsletters through Eagle Financial Publications, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

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

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

Publishing

Our publishing operating segment includes three businesses: (1) Regnery® Publishing, a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including Ann Coulter, Newt Gingrich, David Limbaugh, Ed Klein, Mark Steyn and Dinesh D Souza; (2) Salem Author Services, a self-publishing service for authors through Xulon Press and Mill City Press; and (3) *Singing News*®, which produces and distributes a print magazine.

The table below presents financial information for each operating segment as of December 31, 2018 and 2017 based on the composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Year Ended December 31, 2018					
Net revenue	**$ 198,502**	**$ 42,595**	**$ 21,686**	$	**$ 262,783**
Operating expenses	**148,614**	**33,296**	**22,396**	**15,686**	**219,992**
Net operating income (loss) before depreciation, amortization, impairments, change in estimated fair value of contingent earn-out consideration and (gain) loss on the disposition of assets	**$ 49,888**	**$ 9,299**	**$ (710)**	**$ (15,686)**	**$ 42,791**
Depreciation	**7,520**	**3,169**	**510**	**835**	**12,034**
Amortization	**38**	**5,227**	**926**	**1**	**6,192**
Impairment of indefinite-lived long-term assets other than goodwill	**2,834**		**36**		**2,870**
Change in estimated fair value of contingent earn-out consideration		**76**			**76**
(Gain) loss on the disposition of assets	**4,653**				**4,653**
Operating income (loss)	**$ 34,843**	**$ 827**	**$ (2,182)**	**$ (16,522)**	**$ 16,966**

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
Year Ended December 31, 2017					
Net revenue	$ 196,197	$ 43,096	$ 24,443	$	$ 263,736
Operating expenses	145,494	33,675	24,475	16,255	219,899

Net operating income (loss) before depreciation, amortization, impairments, change in estimated fair value of contingent earn-out consideration and (gain) loss on the disposition of assets	$ 50,703	$ 9,421	$ (32)	$ (16,255)	$ 43,837
Depreciation	7,754	3,166	644	805	12,369
Amortization	56	3,414	1,121	2	4,593
Impairment of indefinite-lived long-term assets other than goodwill			19		19
Change in estimated fair value of contingent earn-out consideration		(23)			(23)
(Gain) loss on the disposition of assets	3,898		(5)	12	3,905
Operating income (loss)	$ 38,995	$ 2,864	$ (1,811)	$ (17,074)	$ 22,974

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	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
			(Dollars in thousands)		
As of December 31, 2018					
Inventories, net	$	**$ 290**	**$ 387**	$	**$ 677**
Property and equipment, net	**81,427**	**6,190**	**933**	**7,958**	**96,508**
Broadcast licenses	**376,316**				**376,316**
Goodwill	**2,960**	**21,933**	**1,888**	**8**	**26,789**
Other indefinite-lived intangible assets			**277**		**277**
Amortizable intangible assets, net	**303**	**8,937**	**2,021**	**3**	**11,264**
As of December 31, 2017					
Inventories, net	$	$ 313	$ 417	$	$ 730
Property and equipment, net	83,901	6,173	1,281	8,125	99,480
Broadcast licenses	380,914				380,914
Goodwill	3,581	20,947	1,888	8	26,424
Other indefinite-lived intangible assets			313		313
Amortizable intangible assets, net	351	9,801	2,947	5	13,104

NOTE 20. SUBSEQUENT EVENTS

On March 7, 2019, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution will be paid on March 29, 2019 to all Class A and Class B common stockholders of record as of March 19, 2019.

On March 1, 2019, we entered into an agreement to acquire the pjmedia.com website for $0.1 million in cash. The purchase is expected to close during the first quarter of 2019.

On February 28, 2019, we sold Mike Turner s line of investment products, including TurnerTrends.com and other domain names and related assets. We received no cash from the buyer who assumed all deferred subscription liabilities for Mike Turner s investment products. We recognized a loss of approximately $0.2 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the estimated cost to sell.

On February 22, 2019, we entered into an agreement to sell HumanEvents.com, a conservative opinion website that provides news and commentary on conservative issues of interest for $0.3 million. We recognized a loss of approximately $0.2 million associated with the sale that closed on February 27, 2019 reflecting the sales price as compared to the carrying value of the assets and the estimated cost to sell.

We completed the following repurchases of our Notes from January 1, 2019 through the date of the filing:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
			(Dollars in thousands)		
February 20, 2019	$ 125	$ 114	91.25%	$ 2	$ 9
February 19, 2019	350	319	91.25%	7	24
February 12, 2019	1,325	1,209	91.25%	25	91
January 10, 2019	570	526	92.25%	9	35

	$ 2,370	$ 2,168

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

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, 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 the design and operation of our disclosure controls and procedures (as defined by Exchange Act Rule 13a-15(e)). Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018, the end of the period covered by this report.

(b) Management s Annual Report on Internal Control Over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

(1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of managements and directors of the Company; and

(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has used the framework set forth in the 2013 report entitled Internal

Control Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission to evaluate the effectiveness of the Company s internal control over financial reporting. Management has concluded that the Company s internal control over financial reporting was effective as of the end of the most recent fiscal year.

(c) Attestation Report of Registered Public Accounting Firm. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Crowe LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(d) Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting during the Company s fourth fiscal quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, expected to be filed within 120 days of our fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading EXECUTIVE COMPENSATION, expected to be filed within 120 days of our fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS expected to be filed within 120 days of our fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item relating to Certain Relationships and Related Party Transactions is incorporated by reference to our Definitive Proxy Statement under the heading CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS expected to be filed within 120 days of our fiscal year end.

The information required by this item relating to Director Independence is incorporated by reference to our Definitive Proxy Statement under the heading DIRECTOR INDEPENDENCE expected to be filed within 120 days of our fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference to our Definitive Proxy Statement under the heading PRINCIPAL ACCOUNTING FEES AND SERVICES, expected to be filed within 120 days of our fiscal year end.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements. The financial statements required to be filed hereunder are included in Item 8.

ITEM 16. FORM 10-K SUMMARY

Not required for smaller reporting companies.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits.

EXHIBIT LIST

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
3.01	Amended and Restated Certificate of Incorporation of the Company.	8-K	333-41733-29	04/14/99	3.1	
3.02	Certificate of Amendment of Certificate of Incorporation of the Company.	8-K	000-26497	02/23/15	3.1	
3.03	Second Amended and Restated Bylaws of the Company.	8-K	000-26497	02/23/15	3.2	
4.01	Specimen of Class A common stock certificate.	S-1/A	333-76649	Declared Effective 06/30/99	4.09	
4.02	Indenture, dated as of May 19, 2017, by and among Salem Media Group, Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee and collateral agent	8-K	000-26497	05/23/17	4.1	
4.03	Form of 6.750% Senior Secured Note due 2024	8-K	000-26497	05/23/17	4.2	
4.04	Security Agreement, dated as of May 19, 2017, among Salem Media Group, Inc., the subsidiary guarantors party thereto and U.S.	8-K	000-26497	05/23/17	4.3	

Bank National Association, as
collateral agent

10.00	Employment Agreement, dated July 1, 2016 between Salem Communications Holding Corporation and Edward G. Atsinger III.	8-K	000-26497	06/13/16	99.1
10.01	Employment Agreement, dated July 1, 2018 between Salem Communications Holding Corporation and Stuart W. Epperson.	10-Q	000-26497	08/09/18	10.1
10.02	Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and Evan D. Masyr.	8-K	000-26497	01/04/17	99.1
10.03	Employment Agreement dated January 1, 2017 between Salem Communications Holding Corporation and David Santrella.	8-K	000-26497	01/04/17	99.2
10.04	Employment Agreement, effective as of September 15, 2017, between Salem Communications Holding Corporation and David A.R. Evans.	8-K	000-26497	09/19/17	99.1
10.05	Employment Agreement, effective as of July 1, 2018, between Salem Communications Holding Corporation and Christopher J. Henderson.	8-K	000-26497	05/15/18	99.1
10.06.01	Antenna/tower lease between Caron Broadcasting, Inc. (KFXN-AM) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust, expiring in 2036.	8-K	000-26497	09/08/16	10.3
10.06.02	Antenna/tower/studio lease between Common Ground Broadcasting, Inc. (KKMS-AM/Eagan, Minnesota) and Messrs. Atsinger and Epperson expiring in 2036.	8-K	000-26497	09/08/16	10.2

10.06.03	Antenna/tower lease (KFAX-FM/Hayward, California) and Salem Broadcasting Company, a partnership consisting of Messrs. Atsinger and Epperson, expiring in 2023.	8-K	000-26497	04/14/08	10.06.21
10.06.04	Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, Texas) and Epperson-Atsinger 1983 Family Trust expiring 2017.	S-4	333-41733-29	01/29/98	10.05.19
10.06.04.01	Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.	10-K	000-26497	03/17/08	10.06.13.01
10.06.04.02	Second Amendment to Lease to Antenna/tower lease between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Epperson-Atsinger 1983 Family Trust expiring 2017.	10-K	000-26497	03/17/08	10.06.13.02
10.06.05	Antenna/tower lease between Inspiration Media, Inc. (KLFE-AM/Seattle, Washington) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring in 2023.	8-K	000-26497	04/14/08	10.06.22
10.06.06	Antenna/tower/studio lease between Pennsylvania Media Associates, Inc. (WNTP-AM/WFIL-AM/Philadelphia, Pennsylvania) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023.	8-K	000-26497	04/14/08	10.06.27
10.06.07	Antenna/tower lease between New Inspiration Broadcasting Co., Inc.: as successor in interest to Radio 1210, Inc. (KPRZ-AM/San Marcos, California) and The Atsinger Family Trust expiring in 2028.	S-4	333-41733-29	01/29/98	10.05.12

10.06.08	Lease Agreement between Salem Media of Colorado, Inc. (KNUS-AM/Denver-Boulder, Colorado) and Messrs. Atsinger and Epperson expiring 2036.	8-K	000-26497	03/03/16	10.1
10.06.09	Antenna/tower lease between Salem Media of Oregon, Inc. (KPDQ-AM/FM/Portland, Oregon), and Messrs. Atsinger and Epperson expiring 2023.	8-K	000-26497	04/14/08	10.06.24
10.06.10	Antenna/tower lease between South Texas Broadcasting, Inc. (KNTH-AM/Houston-Galveston, Texas) and Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2023.	8-K	000-36497	04/14/08	10.06.23
10.06.11	Antenna/tower lease between New Inspiration Broadcasting Company, Inc. (KFIA-AM/Sacramento, California) and The Atsinger Family Trust and Stuart W. Epperson Revocable Living Trust expiring 2036.	8-K	000-26497	09/08/16	10.1
10.06.12	Antenna/tower lease between Inspiration Media of Texas, Inc. (KTEK-AM/Alvin, Texas) and the Atsinger Family Trust and The Stuart W. Epperson Revocable Living Trust expiring 2018.	10-K	000-26497	03/31/99	10.05.23
10.06.13	Antenna/tower lease between Pennsylvania Media Associates Inc. (WTLN-AM/ Orlando, Florida) and Atsinger Family Trust and Stuart W. Epperson, revocable living trust expiring 2045.	10-K	000-26497	03/16/07	10.05.25
10.06.14	Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KDOW-AM/Palo Alto, CA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.20

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10.06.15	Lease Agreement, dated April 8, 2008, between New Inspiration Broadcasting Company, Inc. (KFAX-AM/San Francisco, CA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.21
10.06.16	Lease Agreement, dated April 8, 2008, between Inspiration Media, Inc. (KLFE-AM/Seattle, WA) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.22
10.06.17	Lease Agreement, dated April 8, 2008, between South Texas Broadcasting, Inc. (KNTH-AM/Houston, TX) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.23
10.06.18	Lease Agreement, dated April 8, 2008, between Salem Media of Oregon, Inc. (KPDQ-AM/Portland, OR) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.24
10.06.19	Lease Agreement, dated April 8, 2008, between Common Ground Broadcasting, Inc. (KPXQ-AM/Glendale, AZ) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.25
10.06.20	Lease Agreement, dated April 8, 2008, between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX/night sight) and Principal Shareholders expiring 2023.	8-K	000-26497	04/14/08	10.06.26
10.06.21	Lease Agreement, dated January 25, 2017, between Caron Broadcasting, Inc. (KTIE-AM/San Bernardino) and Principal Shareholders expiring 2036.	8-K	000-26497	01/27/2017	10.1
10.06.22	Lease Agreement dated May 8, 2017, between Salem Media of Texas, Inc. (KSLR-AM/San Antonio, TX) and Principal Shareholders expiring 2037.	8-K	000-26497	05/10/2017	10.1

10.07.01	Asset Purchase Agreement, dated May 25, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W224BU, Lake City, Florida).	10-K	000-26497	03/10/17	10.07.01
10.07.02	Asset Purchase Agreement, dated May 18, 2016, by and between Pennsylvania Media Associates, Inc. and Delmarva Educational Association (FM Translator W222BT, Palm Coast, Florida) (the Palm Coast APA).	10-K	000-26497	03/10/17	10.07.02
10.07.02.01	First Amendment to Palm Coast APA dated May 25, 2016.	10-K	000-26497	03/10/17	10.07.02.01
10.07.02.02	Second Amendment to Palm Coast APA dated July 27, 2016.	10-K	000-26497	03/10/17	10.07.02.02
10.07.02.03	Third Amendment to Palm Coast APA dated July 29, 2016.	10-K	000-26497	03/10/17	10.07.02.03
10.07.02.04	First Assignment and Assumption of Purchase Agreement dated July 27, 2016 from Pennsylvania Media Associates, Inc. to Caron Broadcasting, Inc.	10-K	000-26497	03/10/17	10.07.02.04
10.07.02.05	Second Assignment and Assumption of Asset Purchase Agreement dated July 29, 2016 from Caron Broadcasting, Inc. to South Texas Broadcasting, Inc.	10-K	000-26497	03/10/17	10.07.02.05
10.07.03	Local Marketing Agreement, dated December 15, 2016 by and between New Inspiration Broadcasting Company, Inc. and East Bay Broadcasting, LLC (KTRB-AM, San Francisco, California).	8-K	000-26497	12/20/16	10.1
10.07.03	Assignment and Assumption of Real Property Rights and Obligations under Asset Purchase Agreement dated September 12, 2017 between AM 570, LLC and Salem Radio Properties, Inc.	8-K	000-26497	09/20/17	10.1

10.07.03	Asset Purchase Agreement dated July 10, 2018 by and between New Inspiration Broadcasting Company, Inc. and East Bay Broadcasting, LLC (KTRB-AM, San Francisco, California).	8-K	000-26497	07/13/18	10.1
10.07.04	Local Programming and Marketing Agreement dated September 15, 2017 between AM 570, LLC and Salem Media of Virginia, Inc.	8-K	000-26497	09/20/17	10.2
10.07.05	Asset Purchase Agreement dated September 15, 2017 between AM 570, LLC and Salem Media of Virginia, Inc.	8-K	000-26497	09/20/17	10.3
10.07.06	Transmitter Site Lease Agreement dated September 15, 2017 between Salem Radio Properties, Inc. and AM 570, LLC.	8-K	000-26497	09/20/17	10.4
10.08.01	Amended and Restated 1999 Stock Incentive Plan (as amended and restated through June 3, 2009).	8-K	000-26497	06/09/09	10.08.04.01
10.08.02	Form of stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-K	000-26497	03/16/05	10.08.02
10.08.03	Form of restricted stock option grant for Amended and Restated 1999 Stock Incentive Plan.	10-Q	000-26497	11/09/05	10.01
10.09	Management Services Agreement by and among Salem and Salem Communications Holding Corporation, dated August 25, 2000 (incorporated by reference to previously filed exhibit 10.11).	10-Q	000-26497	05/15/01	10.11

10.10.01	Credit Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as the borrower, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer and the other Lenders party thereto, Wells Fargo Securities, LLC, SunTrust Robinson Humphrey, Inc., and Rabobank, N.A., as Joint Lead Arrangers and Joint Bookrunners, SunTrust Bank, as Syndication Agent, and Rabobank, N.A. as Documentation Agent.	8-K	000-26497	03/14/13	10.1
10.10.02	Security Agreement, dated as of March 14, 2013, by and among Salem Communications Corporation, as Borrower and the Guarantors party thereto and Wells Fargo Bank, National Association, as Administrative Agent.	8-K	000-26497	03/14/13	10.2
10.10.03	Intercreditor Agreement, dated as of May 19, 2017, by and between Wells Fargo Bank, National Association, as administrative agent, and U.S. Bank National Association, as collateral agent.	8-K	000-26497	05/23/17	10.1
10.10.04	Credit Agreement, dated as of May 19, 2017, by and among Salem Media Group, Inc., as parent and a borrower, the subsidiaries party thereto, as borrowers, Wells Fargo Bank, National Association, as administrative agent, Wells Fargo Bank, National Association, as lead arranger, and the lenders that are parties thereto.	8-K	000-26497	05/23/17	10.2

10.10.05	Guaranty and Security Agreement, dated as of May 19, 2017, by and among Salem Media Group, Inc., the subsidiaries party thereto and Wells Fargo Bank, National Association, as administrative agent	8-K	000-26497	05/23/17	10.3	
10.10.06	Purchase Agreement, dated May 11, 2017, by and between Salem Media Group, Inc., the subsidiaries party thereto, Wells Fargo Securities, LLC, Barclays Capital Inc. and Noble Capital Markets, Inc.	10-Q	000-26497	08/08/17	10.5	
14	Code of Ethics					X
21	Subsidiaries of Salem Media Group, Inc.					X
23.1	Consent of Crowe LLP, Independent Registered Public Accounting Firm.					X
23.2	Consent of Bond & Pecaro.					X
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.					X
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.					X
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.					X

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101	The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets (ii) Consolidated Statements of Operations (iii) the Consolidated Statement of Stockholders Equity (iv) the Consolidated Statements of Cash Flows (v) the Notes to the Consolidated Financial Statements.	X

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
14	Code of Ethics
21	Subsidiaries of Salem Media Group Inc.
23.1	Consent of Crowe LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Bond & Pecaro
31.1	Certification of Edward G. Atsinger III Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
31.2	Certification of Evan D. Masyr Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.
32.1	Certification of Edward G. Atsinger III Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Evan D. Masyr Pursuant to 18 U.S.C. Section 1350.
101	The following financial information from the Annual Report on Form 10-K for the fiscal year ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets (ii) Consolidated Statements of Operations (iii) the Consolidated Statement of Stockholders Equity (iv) the Consolidated Statements of Cash Flows (v) the Notes to the Consolidated Financial Statements.

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SIGNATURES

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

	SALEM MEDIA GROUP, INC.
March 12, 2019	By: /s/ EDWARD G. ATSINGER III
	Edward G. Atsinger III Chief Executive Officer
March 12, 2019	By: /s/ EVAN D. MASYR
	Evan D. Masyr Executive Vice President and Chief Financial Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ EDWARD G. ATSINGER III	Chief Executive Officer	March 12, 2019
Edward G. Atsinger III	(Principal Executive Officer)	
/s/ EVAN D. MASYR	Executive Vice President and Chief Financial	March 12, 2019
Evan D. Masyr	Officer (Principal Financial Officer and	
	Principal Accounting Officer)	
/s/ STUART W. EPPERSON	Chairman	March 12, 2019
Stuart W. Epperson		
/s/ JONATHAN VENVERLOH	Director	March 12, 2019
Jonathan Venverloh		
/s/ RICHARD A. RIDDLE	Director	March 12, 2019
Richard A. Riddle		
/s/ JAMES KEET LEWIS	Director	March 12, 2019
James Keet Lewis		
/s/ ERIC HALVORSON	Director	March 12, 2019
Eric Halvorson		
/s/ EDWARD C. ATSINGER	Director	March 12, 2019
Edward C. Atsinger		
/s/ STUART W. EPPERSON JR.	Director	March 12, 2019
Stuart W. Epperson Jr.		