

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019

OR

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

SALEM MEDIA GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)



DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

77-0121400
(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

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

93012
(ZIP CODE)

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

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.01 par value per share	SALM	NASDAQ Global Market

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 and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.)

Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Emerging Growth Company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>		

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

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

Yes No

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

Class A	Outstanding at November 1, 2019
Common Stock, \$0.01 par value per share	21,129,667 shares
Class B	Outstanding at November 1, 2019
Common Stock, \$0.01 par value per share	5,553,696 shares

SALEM MEDIA GROUP, INC.
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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.

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” and similar expressions are intended to identify forward-looking statements, as defined under the Private Securities Litigation Reform Act of 1995.

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

PART I – FINANCIAL INFORMATION

SALEM MEDIA GROUP, INC.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	December 31, 2018 (Note 1)	September 30, 2019 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 117	\$ 7
Trade accounts receivable (net of allowances of \$9,732 in 2018 and \$10,547 in 2019)	33,020	33,465
Unbilled revenue	2,513	2,273
Other receivables (net of allowances of \$158 in 2018 and \$0 in 2019)	806	9,224
Inventories (net of reserves of \$994 in 2018 and \$1,263 in 2019)	677	649
Prepaid expenses	6,504	6,165
Assets held for sale	—	8,731
Total current assets	43,637	60,514
Notes receivable (net of allowance of \$733 in 2018 and \$978 in 2019)	218	797
Property and equipment (net of accumulated depreciation of \$170,756 in 2018 and \$170,478 in 2019)	96,344	88,317
Operating lease right-of-use assets	—	56,800
Financing lease right-of-use assets	164	189
Broadcast licenses	376,316	340,354
Goodwill	26,789	26,425
Other indefinite-lived intangible assets	277	277
Amortizable intangible assets (net of accumulated amortization of \$53,180 in 2018 and \$54,547 in 2019)	11,264	8,170
Deferred financing costs	381	268
Other assets	3,638	4,134
Total assets	\$ 559,028	\$ 586,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,187	\$ 4,305
Accrued expenses	10,104	9,449
Accrued compensation and related expenses	7,582	9,767
Accrued interest	1,375	5,231
Contract liabilities	11,537	9,377
Deferred rent income	108	108
Income taxes payable	267	354
Current portion of operating lease liabilities	—	8,191
Current portion of financing (capital) lease liabilities	58	69
Current portion of long-term debt	19,660	18,065
Total current liabilities	52,878	64,916
Long-term debt, less current portion	234,030	228,091
Operating lease liabilities, less current portion	—	56,343
Financing (capital) lease liabilities, less current portion	105	133
Deferred income taxes	35,272	35,759
Deferred rent expense, long term	9,382	—
Contract liabilities, long-term	1,379	1,807
Deferred rent income, less current portion	4,049	3,979
Other long-term liabilities	64	546
Total liabilities	337,159	391,574
Commitments and contingencies (Note 17)		
Stockholders' Equity:		
Class A common stock, \$0.01 par value; authorized 80,000,000 shares; 22,950,066 and 23,380,650 issued and 20,632,416 and 21,063,000 outstanding at December 31, 2018 and September 30, 2019, 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, 2018 and September 30, 2019	56	56
Additional paid-in capital	245,220	246,509
Accumulated earnings	10,372	(18,115)
Treasury stock, at cost (2,317,650 shares at December 31, 2018 and September 30, 2019)	(34,006)	(34,006)
Total stockholders' equity	221,869	194,671
Total liabilities and stockholders' equity	\$ 559,028	\$ 586,245

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
Net broadcast revenue	\$ 48,812	\$ 47,679	\$ 147,425	\$ 142,854
Net digital media revenue	10,397	9,149	31,051	29,349
Net publishing revenue	6,319	7,288	17,119	17,062
Total net revenue	<u>65,528</u>	<u>64,116</u>	<u>195,595</u>	<u>189,265</u>
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including \$564 and \$454 for the three months ended September 30, 2018 and 2019, respectively, and \$1,699 and \$1,426 for the nine months ended September 30, 2018 and 2019, respectively, paid to related parties)	37,158	37,310	110,151	111,466
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,021	7,282	24,792	22,988
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,210	6,517	17,319	17,112
Unallocated corporate expenses, exclusive of depreciation and amortization shown below (including \$41 and \$27 for the three months ended September 30, 2018 and 2019, respectively, and \$198 and \$94 for the nine months ended September 30, 2018 and 2019, respectively, paid to related parties)	3,987	4,183	11,938	12,386
Depreciation	3,032	2,744	9,076	8,529
Amortization	1,604	1,147	4,558	3,567
Change in the estimated fair value of contingent earn-out consideration	—	(40)	72	(40)
Impairment of indefinite-lived long-term assets other than goodwill	—	1,915	—	1,915
Net (gain) loss on the disposition of assets	(759)	17,545	4,400	21,212
Total operating expenses	<u>59,253</u>	<u>78,603</u>	<u>182,306</u>	<u>199,135</u>
Operating income	6,275	(14,487)	13,289	(9,870)
Other income (expense):				
Interest income	2	—	4	1
Interest expense	(4,507)	(4,410)	(13,779)	(13,206)
Gain on early retirement of long-term debt	—	—	234	426
Net miscellaneous income and (expenses)	1	—	(12)	19
Net income (loss) before income taxes	1,771	(18,897)	(264)	(22,630)
Provision for (benefit from) income taxes	564	1,108	(132)	697
Net income (loss)	<u>\$ 1,207</u>	<u>\$ (20,005)</u>	<u>\$ (132)</u>	<u>\$ (23,327)</u>
Basic earnings (loss) per share data:				
Basic earnings (loss) per share	\$ 0.05	\$ (0.75)	\$ (0.01)	\$ (0.88)
Diluted earnings (loss) per share data:				
Diluted earnings (loss) per share	\$ 0.05	\$ (0.75)	\$ (0.01)	\$ (0.88)
Basic weighted average shares outstanding	26,183,910	26,616,696	26,177,565	26,442,791
Diluted weighted average shares outstanding	<u>26,312,194</u>	<u>26,616,696</u>	<u>26,177,565</u>	<u>26,442,791</u>

See accompanying notes

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

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Earnings	Treasury Stock	Total
	Shares	Amount	Shares	Amount				
Stockholders' equity, December 31, 2018	22,950,066	\$ 227	5,553,696	\$ 56	\$ 245,220	\$ 10,372	\$ (34,006)	\$ 221,869
Stock-based compensation	—	—	—	—	176	—	—	176
Cash distributions	—	—	—	—	—	(1,702)	—	(1,702)
Net income	—	—	—	—	—	322	—	322
Stockholders' equity, March 31, 2019	22,950,066	\$ 227	5,553,696	\$ 56	\$ 245,396	\$ 8,992	\$ (34,006)	\$ 220,665
Distributions per share	\$ 0.065		\$ 0.065					
Stock-based compensation	—	—	—	—	936	—	—	936
Options exercised	200	—	—	—	—	—	—	—
Lapse of restricted shares	389,061	—	—	—	—	—	—	—
Cash distributions	—	—	—	—	—	(1,728)	—	(1,728)
Net (loss)	—	—	—	—	—	(3,644)	—	(3,644)
Stockholders' equity, June 30, 2019	23,339,327	\$ 227	5,553,696	\$ 56	\$ 246,332	\$ 3,620	\$ (34,006)	\$ 216,229
Distributions per share	\$ 0.065		\$ 0.065					
Stock-based compensation	—	—	—	—	177	—	—	177
Options exercised	—	—	—	—	—	—	—	—
Lapse of restricted shares	41,323	—	—	—	—	—	—	—
Cash distributions	—	—	—	—	—	(1,730)	—	(1,730)
Net (loss)	—	—	—	—	—	(20,005)	—	(20,005)
Stockholders' equity, September 30, 2019	23,380,650	\$ 227	5,553,696	\$ 56	\$ 246,509	\$ (18,115)	\$ (34,006)	\$ 194,671
Distributions per share	\$ 0.065		\$ 0.065					
	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Earnings	Treasury Stock	Total
	Shares	Amount	Shares	Amount				
Stockholders' equity, December 31, 2017	22,932,451	\$ 227	5,553,696	\$ 56	\$ 244,634	\$ 20,370	\$ (34,006)	\$ 231,281
Stock-based compensation	—	—	—	—	46	—	—	46
Options exercised	8,125	—	—	—	19	—	—	19
Cash distributions	—	—	—	—	—	(1,701)	—	(1,701)
Net income	—	—	—	—	—	828	—	828
Stockholders' equity, March 31, 2018	22,940,576	\$ 227	5,553,696	\$ 56	\$ 244,699	\$ 19,497	\$ (34,006)	\$ 230,473
Distributions per share	\$ 0.065		\$ 0.065					
Stock-based compensation	—	—	—	—	126	—	—	126
Options exercised	625	—	—	—	2	—	—	2
Cash distributions	—	—	—	—	—	(1,701)	—	(1,701)
Net (loss)	—	—	—	—	—	(2,167)	—	(2,167)
Stockholders' equity, June 30, 2018	22,941,201	\$ 227	5,553,696	\$ 56	\$ 244,827	\$ 15,629	\$ (34,006)	\$ 226,733
Distributions per share	\$ 0.065		\$ 0.065					
Stock-based compensation	—	—	—	—	191	—	—	191
Options exercised	8,865	—	—	—	22	—	—	22
Cash distributions	—	—	—	—	—	(1,702)	—	(1,702)
Net income	—	—	—	—	—	1,207	—	1,207
Stockholders' equity, September 30, 2018	22,950,066	\$ 227	5,553,696	\$ 56	\$ 245,040	\$ 15,134	\$ (34,006)	\$ 226,451
Distributions per share	\$ 0.065		\$ 0.065					

See accompanying notes

SALEM MEDIA GROUP, INC.
CONDE NSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2019
OPERATING ACTIVITIES		
Net income (loss)	\$ (132)	\$ (23,327)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Non-cash stock-based compensation	363	1,289
Depreciation and amortization	13,634	12,096
Amortization of deferred financing costs	855	766
Non-cash lease expense	—	6,735
Accretion of acquisition-related deferred payments and contingent consideration	24	2
Provision for bad debts	1,498	1,407
Deferred income taxes	(301)	487
Change in the estimated fair value of contingent earn-out consideration	72	(40)
Impairment of indefinite-lived long-term assets other than goodwill	—	1,915
Gain on early retirement of long-term debt	(234)	(426)
Net (gain) loss on the disposition of assets	4,400	21,212
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	(3,829)	(2,363)
Inventories	(161)	(372)
Prepaid expenses and other current assets	(560)	338
Accounts payable and accrued expenses	7,224	4,504
Deferred rent expense	(235)	—
Operating lease liabilities	—	(7,983)
Contract liabilities	(2,380)	(1,710)
Deferred rent income	(69)	(130)
Other liabilities	(40)	(16)
Income taxes payable	69	87
Net cash provided by operating activities	20,198	14,471
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(6,513)	(6,064)
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(77)	(3)
Purchases of broadcast assets and radio stations	(6,534)	(35)
Purchases of digital media businesses and assets	(4,320)	(1,250)
Proceeds from sale of assets	8,518	4,202
Other	(398)	(725)
Net cash used in investing activities	(9,324)	(3,875)
FINANCING ACTIVITIES		
Payments to repurchase 6.75% Senior Secured Notes	(9,550)	(6,123)
Proceeds from borrowings under ABL Facility	111,337	86,367
Payments on ABL Facility	(110,137)	(87,962)
Refund (payments) of debt issuance costs	(11)	(43)
Proceeds from the exercise of stock options	43	—
Payments of acquisition-related contingent earn-out consideration	(140)	—
Payments on financing lease liabilities	(73)	(65)
Payment of cash distribution on common stock	(5,104)	(5,160)
Book overdraft	2,775	2,280
Net cash used in financing activities	(10,860)	(10,706)
Net increase (decrease) in cash and cash equivalents	14	(110)
Cash and cash equivalents at beginning of year	3	117
Cash and cash equivalents at end of period	\$ 17	\$ 7

See accompanying notes

SALEM MEDIA GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2019
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Cash paid for interest, net of capitalized interest	\$ 8,772	\$ 8,568
Cash paid for interest on finance lease liabilities	\$ 22	\$ 7
Cash paid for income taxes	\$ 99	\$ 122
Other supplemental disclosures of cash flow information:		
Barter revenue	\$ 5,018	\$ 4,113
Barter expense	\$ 4,223	\$ 3,673
Non-cash investing and financing activities:		
Capital expenditures reimbursable under tenant improvement allowances	\$ 77	\$ 3
Deferred payments on acquisitions	\$ 326	\$ —
Right-of-use assets acquired through operating leases	\$ —	\$ 1,854
Right-of-use assets acquired through financing leases	\$ 56	\$ 14
Non-cash capital expenditures for property & equipment acquired under trade agreements	\$ 90	\$ —

See accompanying notes

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

NOTE 1. BASIS OF PRESENTATION

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 21 – Segment Data.

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

Information with respect to the three and nine months ended September 30, 2019 and 2018 is unaudited. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The unaudited interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Salem filed on Form 10-K for the year ended December 31, 2018. Our results are subject to seasonal fluctuations. Therefore, the results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The balance sheet at December 31, 2018 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

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;
- assessment of contract-based factors, asset-based factors, entity-based factors and market-based factors to determine the lease term impacting Right-Of-Use (“ROU”) assets and lease liabilities,
- determining the Incremental Borrowing Rate (“IBR”) for calculating ROU assets and lease liabilities,
- income tax valuation allowances; and
- uncertain tax positions

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications include the accounting for finance lease obligations under Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“ASC 842”) issued under ASU 2016-02 on January 1, 2019.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for our accounting policies for leases a result of adopting ASC 842, there have been no changes to our significant accounting policies described in Note 2 to our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 12, 2019, that have had a material impact on our Condensed Consolidated Financial Statements and related notes.

Leases

We adopted ASC 842 on January 1, 2019 using the modified retrospective basis and did not restate comparative periods as permitted under Accounting Standards Update (“ASU”) 2018-11. ASC 842 supersedes nearly all existing lease accounting guidance under GAAP issued by the Financial Accounting Standards Board (“FASB”) including ASC Topic 840, Leases. ASC 842 requires that lessees recognize ROU assets and lease liabilities calculated based on the present value of lease payments for all lease agreements with terms that are greater than twelve months. 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.

For operating leases, we calculated ROU assets and lease liabilities based on the present value of the remaining lease payments as of the date of adoption using the IBR as of that date. There were no changes in our capital lease portfolio, which are now titled “finance leases” under ASC 842, other than the reclassification of the assets acquired under capital leases from their respective property and equipment category and long-term debt to ROU assets and lease liabilities.

The adoption of ASC 842 resulted in recording a non-cash transitional adjustment to operating lease ROU assets and operating lease liabilities of \$65.0 million and \$74.4 million, respectively. The difference between the operating lease ROU assets and operating lease liabilities at transition represented existing deferred rent expense and prepaid rent that was derecognized. The adoption of ASC 842 did not materially impact our results of operations, cash flows, or presentation thereof. Refer to Note 8 for more information.

The FASB issued practical expedients and accounting policy elections that we have applied as described below.

Practical Expedients

ASC 842 provides a package of three practical expedients that must be adopted together and applied to all lease agreements. We elected the package of practical expedients as follows for all leases:

Whether expired or existing contracts contain leases under the new definition of a lease.

Because the accounting for operating leases and service contracts was similar under ASC 840, there was no accounting reason to separate lease agreements from service contracts in order to account for them correctly. We reviewed existing service contracts to determine if the agreement contained an embedded lease to be accounted for on the balance sheet under ASC 842.

Lease classification for expired or existing leases.

Leases that were capital leases under ASC 840 are accounted for as financing leases under ASC 842 while leases that were operating leases under ASC 840 are accounted for as operating leases under ASC 842.

Whether previously capitalized initial direct costs would meet the definition of initial direct costs under the new standard guidance.

The definition of initial direct costs is more restrictive under ASC 842 than under ASC 840. Entities that do not elect the practical expedient are required to reassess capitalized initial direct costs under ASC 840 and record an equity adjustment for those that are not capitalizable under ASC 842.

Land Easement Practical Expedient

We elected the practical expedient that permits us to continue applying our current policy of accounting for land easements that existed as of, or expired before, the effective date of ASC 842. We have applied this policy to all of our existing land easements that were not previously accounted for under ASC 840.

Accounting Policy Elections

Lease Term

We calculate the term for each lease agreement to include the noncancellable period specified in the agreement together with (1) the periods covered by options to extend the lease if we are reasonably certain to exercise that option, (2) periods covered by an option to terminate if we are reasonably certain not to exercise that option and (3) period covered by an option to extend (or not terminate) if controlled by the lessor.

The assessment of whether we are reasonably certain to exercise an option to extend a lease requires significant judgement surrounding contract-based factors, asset-based factors, entity-based factors and market-based factors. These factors are described in our Critical Accounting Policies, Judgments and Estimates in Item 2 in this quarterly report on Form 10-Q.

Lease Payments

Lease payments consist of the following payments (as applicable) related to the use of the underlying asset during the lease term:

- Fixed payments, including in substance fixed payments, less any lease incentives paid or payable to the lessee
- Variable lease payments that depend on an index or a rate, such as the Consumer Price Index or a market interest rate, initially measured using the index or rate at the commencement date of January 1, 2019.
- The exercise price of an option to purchase the underlying asset if the lessee is reasonably certain to exercise that option.
- Payments for penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.
- Fees paid by the lessee to the owners of a special-purpose entity for structuring the transaction
- For a lessee only, amounts probable of being owed by the lessee under residual value guarantees

Short-Term Lease Exemption

We elected to exclude short-term leases, or leases with a term of twelve months or less that do not contain a purchase option that we are reasonably certain to exercise, from our ROU asset and lease liability calculations.

We considered the applicability of the short-term exception on month-to-month leases with perpetual or rolling renewals as we are “reasonably certain” to continue the lease. For example, we lease various storage facilities under agreements with month-to-month terms that have continued over several years. The standard terms and conditions for a majority of these agreements allow either party to terminate within a notice period ranging from 10 to 30 days. There are no cancellation penalties other than the potential loss of a one-month rent or a security deposit if the termination terms are not adhered to.

We believe that these month-to-month leases qualify for the short-term exception to ASC 842 because either party can terminate the agreement without permission from the other party with no more than an insignificant penalty, therefore, the arrangements do not create enforceable rights and obligations. Additionally, the cost to move to a new location or find comparable facilities is low as there are no unique features of the storage facilities that impact our business or operations. We considered termination clauses, costs associated with moving and costs associated with finding alternative facilities to exclude month-to-month leases that have perpetually renewed.

Service Agreements with an Embedded Lease Component

We elected to exclude certain service agreements that contain embedded leases for equipment based on the immaterial impact of these agreements. Our analysis included cable and satellite television service agreements for which our monthly payment may include equipment rentals, coffee and water service at certain facilities that may include equipment rentals (we often meet minimum requirements and just pay for product used), security services that include a monthly fee for cameras or equipment, and other similar arrangements. Based on the insignificant amount of the monthly lease costs, we elected to exclude these agreements from our ROU asset and liability calculations due to the immaterial impact to our financial statements.

Index or Rate Applicable to Operating Lease Liabilities

We elected to measure lease liabilities for variable lease payments using the current rate or index in effect at the time of transition on January 1, 2019. Using the current index or rate is consistent with how we calculated and presented future minimum lease payments under ASC 840. Therefore, there is no change in accounting policy applicable to this election.

Incremental Borrowing Rate

The ROU asset and related lease liabilities recorded under ASC 842 are calculated based on the present value of the lease payments using (1) the rate implicit in the lease or (2) the lessee’s IBR, defined as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. We performed an analysis as of January 1, 2019 to estimate the IBR applicable to Salem upon transition to ASC 842. Our analysis required the use of significant judgement and estimates, including the estimated value of the underlying leased asset, as described in are described in our Critical Accounting Policies, Judgments and Estimates in Item 2 in this quarterly report on Form 10-Q.

Portfolio Approach

We elected to use a portfolio approach by applying a single IBR to leases with reasonably similar characteristics, including the remaining lease term, the underlying assets and the economic environment. We believe that applying the portfolio approach is acceptable because the results do not materially differ from the application of the leases model to the individual leases in that portfolio.

Sales Taxes and Other Similar Taxes

We elected not to evaluate whether sales taxes or other similar taxes imposed by a governmental authority on a specific lease revenue-producing transaction that are collected by the lessor from the lessee are the primary obligation of the lessor as owner of the underlying leased asset. A lessor that makes this election will exclude these taxes from the measurement of lease revenue and the associated expense. Taxes assessed on a lessor's total gross receipts or on the lessor as owner of the underlying asset (e.g., property taxes) are excluded from the scope of the policy election. A lessor must apply the election to all taxes in the scope of the policy election and would provide certain disclosures.

Separating Consideration between Lease and Non-Lease Components

We elected to include the lease and non-lease components (or the fixed and variable consideration) as a single component accounted for as a lease. This practical expedient is elected by class of underlying assets as an accounting policy election and applies to all arrangements in that class of underlying assets that qualify for the expedient. ASC 842 provides this expedient to alleviate concerns that the costs and administrative burden of allocating consideration to the separate lease and non-lease components may not justify the benefit of more precisely reflecting the ROU asset and the lease liability.

Contracts that include lease and non-lease components that are accounted for under the election not to separate require that all components that qualify for the practical expedient be combined. The components that do not qualify, such as those for which the timing and pattern of transfer of the lease and associated non-lease components are not the same, are accounted for separately.

Accounting for a lease component of a contract and its associated non-lease components as a single lease component results in an allocation of the total contract consideration to the lease component. Therefore, the initial and subsequent measurement of the lease liability and ROU asset is greater than if the policy election was not applied. The greater ROU asset value is considered in our impairment analysis.

Impairment of ROU Assets

ROU assets are reviewed for impairment when indicators of impairment are present. ROU assets from operating and finance leases are subject to the impairment guidance in ASC 360, Property, Plant, and Equipment, as ROU assets are long-lived nonfinancial assets.

ROU assets are tested for impairment individually or as part of an asset group if the cash flows related to the ROU asset are not independent from the cash flows of other assets and liabilities. An asset group is the unit of accounting for long-lived assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

After a careful analysis of the guidance, we concluded that the appropriate unit of accounting for testing ROU assets for impairment is the broadcast market cluster level for radio station operations and the entity or division level for digital media entities, publishing entities and networks. Corporate ROU assets are tested on a consolidated level with consideration given to all cash flows of the company as corporate functions do not generate cash flows and are funded by revenue-producing activities at lower levels of the entity.

ASC 360 requires three steps to identify, recognize and measure the impairment of a long-lived asset (asset group) to be held and used:

Step 1 – Consider whether Indicators of Impairment are Present

As detailed in ASC 360-10-35-21, the following are examples of impairment indicators:

- A significant decrease in the market price of a long-lived asset (asset group)
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
- A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

Other indicators should be considered if we believe that the carrying amount of an asset (asset group) may not be recoverable.

Step 2 - Test for Recoverability

If indicators of impairment are present, we are required to perform a recoverability test comparing the sum of the estimated undiscounted cash flows attributable to the long-lived asset or asset group in question to the carrying amount of the long-lived asset or asset group.

ASC 360 does not specifically address how operating lease liabilities and future cash outflows for lease payments should be considered in the recoverability test. Under ASC 360, financial liabilities, or long-term debt, generally are excluded from an asset group while operating liabilities, such as accounts payable, generally are included. ASC 842 characterizes operating lease liabilities as operating liabilities. Because operating lease liabilities may be viewed as having attributes of finance liabilities as well as operating liabilities, it is generally acceptable for a lessee to either include or exclude operating lease liabilities from an asset group when testing whether the carrying amount of an asset group is recoverable provided the approach is applied consistently for all operating leases and when performing Steps 2 and 3 of the impairment model in ASC 360.

In cases where we have received lease incentives, including operating lease liabilities in an asset group may result in the long-lived asset or asset group having a zero or negative carrying amount because the incentives reduce our ROU assets. We elected to exclude operating lease liabilities from the carrying amount of the asset group such that we test ROU assets for operating leases in the same manner that we test ROU assets for financing leases.

Undiscounted Future Cash Flows

The undiscounted future cash flows in Step 2 are based on our own assumptions rather than a market participant. If an election is made to exclude operating lease liabilities from the asset or asset group, all future cash lease payments for the lease should also be excluded. The standard requires lessees to exclude certain variable lease payments from lease payments and, therefore, from the measurement of a lessee's lease liabilities. Because these variable payments do not reduce the lease liability, we include the variable payments we expect to make in our estimate of the undiscounted cash flows in the recoverability test (Step 2) using a probability-weighted approach.

Step 3 - Measurement of an Impairment Loss

If the undiscounted cash flows used in the recoverability test are less than the carrying amount of the long-lived asset (asset group), we are required to estimate the fair value of the long-lived asset or asset group and recognize an impairment loss when the carrying amount of the long-lived asset or asset group exceeds the estimated fair value. We elected to exclude operating lease liabilities from the estimated fair value, consistent with the recoverability test. Any impairment loss for an asset group must reduce only the carrying amounts of a long-lived asset or assets of the group, including the ROU assets. The loss must be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group must not reduce the carrying amount of that asset below its fair value whenever the fair value is determinable without undue cost and effort. ASC 360 prohibits the subsequent reversal of an impairment loss for an asset held and used.

Fair Value Considerations

When determining the fair value of a ROU asset, we must estimate what market participants would pay to lease the asset or what a market participant would pay up front in one payment for the ROU asset, assuming no additional lease payments would be due. The ROU asset must be valued assuming its highest and best use, in its current form, even if that use differs from the current or intended use. If no market exists for an asset in its current form, but there is a market for a transformed asset, the costs to transform the asset are considered in the fair value estimate. Refer to Note 15, Fair Value Measurements.

There were no indications of impairment during the period ended September 30, 2019.

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 November 2018, the FASB issued ASU 2018-18 *Collaborative Arrangements (Topic 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 Entities*, 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 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 2018-13, *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 consolidated 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 consolidated 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. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which is effective with the adoption of ASU 2016-13. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326)*, which is also effective with the adoption of ASU 2016-13. In October 2019, the FASB voted to delay the implementation date for certain companies, including those that qualify as a smaller reporting company under SEC rules, until January 1, 2023, with revised ASU’s expected to be issued in November 2019. We expect to continue to qualify as a smaller reporting company and will adopt this ASU on its effective date of January 1, 2023. 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.

NOTE 3. RECENT TRANSACTIONS

During the nine month period ended September 30, 2019, we completed or entered into the following transactions:

Debt Transactions

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
<i>(Dollars in thousands)</i>					
March 28, 2019	\$ 2,000	\$ 1,830	91.50 %	\$ 37	\$ 134
March 28, 2019	2,300	2,125	92.38 %	42	133
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
	<u>\$ 6,670</u>	<u>\$ 6,123</u>		<u>\$ 122</u>	<u>\$ 426</u>

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)
September 11, 2019	September 23, 2019	September 30, 2019	\$ 0.0650	1,730
May 14, 2019	June 14, 2019	June 28, 2019	0.0650	1,728
March 7, 2019	March 19, 2019	March 29, 2019	0.0650	1,702
				<u>\$ 5,160</u>

Acquisitions

On September 27, 2019, we closed on the acquisition of KPAM-AM in Portland, Oregon, valued at \$1.0 million, in a non-cash exchange for radio station KKOL-AM in Seattle, Washington. We began operating KPAM-AM under a Local Marketing Agreement ("LMA") on January 2, 2018. The accompanying Condensed Consolidated Statement of Operations reflects the operating results of this station as of the LMA date within our broadcast segment.

On September 9, 2019, we closed on the acquisition of a construction permit for an FM translator in Louisville, Kentucky for \$35,000 in cash. The FM translator will be used by WGTK-AM in Louisville, Kentucky.

On July 25, 2019, we acquired the Journeyboxmedia.com website and related assets for \$0.5 million in cash. We recorded goodwill of approximately \$4,000 associated with the expected synergies to be realized upon combining the operations of Journeyboxmedia.com into our digital media platform within Salem Web Network ("SWN") and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying Condensed Consolidated Statement of Operations reflects the operating results of this entity as of the closing date within our digital media segment.

On July 10, 2019 we acquired selected assets from the digital content library from Steelehouse Productions, Inc. for \$0.1 million in cash. We recorded goodwill of approximately \$2,000 associated with the expected synergies to be realized upon combining the operations of Steelehouse Productions into our digital media platform with SWN and from brand loyalty from its existing subscriber base that is not a separately identifiable intangible asset. The accompanying Condensed Consolidated Statement of Operations reflects the operating results of this entity as of the closing date within our digital media segment.

On June 6, 2019, we acquired the InvestmentHouse.com website and the related financial newsletter assets and deferred subscription liabilities for \$0.6 million in cash. As part of the purchase agreement, we may pay an additional incentive payment equal to 10% of revenue earned in excess of a predetermined amount during the incentive period ending May 31, 2020. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of InvestmentHouse.com to achieve revenue in excess of the targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$2,500, which approximated the present value based on the earn-out period of less than twelve months. The accompanying Condensed Consolidated Statement of Operations reflects the operating results of this entity as of the closing date within our digital media segment.

On March 18, 2019, we acquired the pjmedia.com website for \$0.1 million in cash. The accompanying Condensed Consolidated Statement of Operations reflects the operating results of this entity as of the closing date within our digital media segment.

A summary of our business acquisitions and asset purchases during the nine months ended September 30, 2019, none of which were individually or in the aggregate material to our condensed consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description	Total Consideration
		<i>(Dollars in thousands)</i>
September 27, 2019	KPAM-AM, Portland, Oregon (asset acquisition)	\$ 965
September 9, 2019	FM Translator construction permit, Louisville, Kentucky (asset acquisition)	35
July 25, 2019	Journeyboxmedia.com (business acquisition)	500
July 10, 2019	Steelehouse Productions, Inc. (business acquisition)	100
June 6, 2019	InvestmentHouse.com (business acquisition)	553
March 18, 2019	pjmedia.com (asset acquisition)	100
		<u>\$ 2,253</u>

Under the acquisition method of accounting as specified in FASB ASC Topic 805, *Business Combinations*, the total acquisition consideration of a business is allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the transaction. 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.

Fair value estimates include the discounted cash flows expected to be generated by the assets over their expected useful lives based on historical experience, market trends and the impact of any synergies believed to be achieved from the acquisition. Acquisitions

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

We may retain a third-party appraiser to estimate the fair value of the net assets acquired as of the acquisition date. As part of this 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 record adjustments to the net assets acquired based on additional information obtained for items that existed as of the acquisition date. Upon the conclusion of the measurement period, any adjustments are reflected in our Condensed Consolidated Statements of Operations. 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 \$48,000 during the nine month period ended September 30, 2019 compared to \$0.2 million during the same period of the prior year, which are included in unallocated corporate expenses or broadcast operating expense based on the nature of the acquisition in the accompanying Condensed Consolidated Statements of Operations.

The total acquisition consideration is equal to the sum of all cash payments, the fair value of any deferred payments and promissory notes, and the present value of any estimated contingent earn-out consideration. We estimate the fair value of contingent earn-out consideration using a probability-weighted discounted cash flow model as discussed in Note 4 – Contingent Earn Out Consideration. 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 15 - Fair Value Measurements.

The following table summarizes the total acquisition consideration for the nine monthperiod ended September 30, 2019:

Description	Total Consideration
	<i>(Dollars in thousands)</i>
Cash payments made upon closing	\$ 1,285
Non-cash consideration (asset exchange)	965
Present value of estimated fair value of contingent earn-out consideration	3
Total purchase price consideration	<u>\$ 2,253</u>

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

	Net Digital Media Assets Acquired	Net Broadcast Assets Acquired	Total Net Assets
	<i>(Dollars in thousands)</i>		
Assets			
Property and equipment	\$ 373	\$ 348	\$ 721
Broadcast licenses	-	652	652
Goodwill	6	-	6
Customer lists and contracts	322	-	322
Domain and brand names	99	-	99
Subscriber base and lists	471	-	471
Non-compete agreements	10	-	10
	<u>\$ 1,281</u>	<u>\$ 1,000</u>	<u>\$ 2,281</u>
Liabilities			
Contract liabilities, short-term	(28)	-	(28)
	<u>\$ 1,253</u>	<u>\$ 1,000</u>	<u>\$ 2,253</u>

Divestitures

On September 27, 2019, we closed on the exchange of radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. No cash was exchanged for the assets. We recognized a non-cash pre-tax loss of \$1.3 million on the exchange based on the estimated fair value of KPAM-AM as compared to the carrying value of KKOL-AM and the closing costs. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of KKOL-AM as of the closing date from the broadcast operating segment. We programmed radio stations KPAM-AM and KKOV-AM in Portland, Oregon under LMAs beginning on January 2, 2018. The LMA's 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 March 30, 2018 to continue programming radio station KPAM-AM. The

accompanying Condensed Consolidated Statements of Operations reflects the operating results of these stations during the LMA terms in the broadcast operating segment.

On September 26, 2019, we sold radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida for \$8.2 million in cash. We recognized a pre-tax loss of \$4.7 million, which reflects the sales price as compared to the carrying value of the assets of the radio stations and the closing costs. We received \$0.4 million in cash upon closing. The remaining \$7.8 million in cash was held in escrow until October 23, 2019 pending finalization of the assignment applications with the Federal Communications Commission ("FCC"). The accompanying Condensed Consolidated Statements of Operations excludes the operating results of these stations as of the closing date from the broadcast operating segment.

On September 18, 2019, we sold radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida for \$0.9 million in cash. We recognized a pre-tax loss of \$1.6 million, which reflects the sales price as compared to the carrying value of the radio station assets and the closing costs. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of WDYZ-AM (formerly WORL-AM) as of the closing date from the broadcast operating segment.

On August 15, 2019 we closed on the exchange of FM Translator W276CR, in Bradenton, FL for FM Translator W262CP in Bayonet Point, FL. No cash was exchanged for the assets.

On June 27, 2019, we sold a portion of land on our transmitter site in Miami, Florida, for \$0.9 million in cash. We recognized a pre-tax gain of \$0.4 million reflecting the sales price as compared to the carrying value of the land.

On May 14, 2019, we sold radio station WSPZ-AM (previously WWRC-AM) in Washington D.C. for \$0.8 million in cash. The buyer began programming the station under a Time Brokerage Agreement ("TBA") on April 12, 2019. We recorded an estimated pre-tax loss of \$3.8 million on March 19, 2019, based on our plan to sell the station and the probability of the sale, which reflected the sales price as compared to the carrying value of the radio station assets and the estimated closing costs. We recorded an additional loss of \$32,000 at closing based on the actual costs incurred. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of this station as of TBA date from the broadcast operating segment.

On March 21, 2019, we sold Newport Natural Health, an e-commerce website operated by Eagle Wellness for \$0.9 million in cash. We recognized a pre-tax gain of \$0.1 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of this entity as of the closing date from the digital media operating segment.

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 pre-tax loss of \$0.2 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of this entity as of the closing date from the digital media operating segment.

On February 27, 2019, we sold HumanEvents.com, a conservative opinion website for \$0.3 million in cash. We recognized a pre-tax loss of \$0.2 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs. The accompanying Condensed Consolidated Statements of Operations excludes the operating results of this entity as of the closing date from the digital media operating segment.

Other Transactions

On April 30, 2018, we ceased programming radio station KHTE-FM, in Little Rock, Arkansas. We programmed the station under a 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 Condensed Consolidated Statements of Operations reflect the operating results of this station during the TBA period within the broadcast operating segment.

Pending Transactions

On August 13, 2019, we entered into an agreement to sell radio stations WAFS-AM in Atlanta, Georgia, WWDJ-AM in Boston, Massachusetts, WHKZ-AM in Cleveland, Ohio, KEXB-AM (formerly KTNO-AM) in Dallas, Texas, KDMT-AM in Denver, Colorado, KTEK-AM in Houston, Texas, KRDY-AM in San Antonio, Texas and KXFN-AM and WSDZ-AM in St. Louis, Missouri for \$8.7 million in cash. We recognized an estimated pre-tax loss of \$9.9 million in the third quarter of 2019, which reflects the sales price as compared to the carrying value of the assets of the radio stations and the estimated closing costs. This transaction is subject to the approval of the FCC and is expected to close in the fourth quarter 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 contained an extension clause that allowed Word Broadcasting to continue operating the station until the purchase agreement was executed and the transaction closed. On June 28, 2019, the TBA was amended to include an additional 24 months

under which Word Broadcasting will program the radio stations with the option to acquire the stations extended to December 31, 2020.

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 15.

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.

InvestmentHouse.com

We acquired the InvestmentHouse.com website and the related financial newsletter assets and deferred subscription liabilities on June 6, 2019. We paid \$0.6 million in cash upon closing and may pay an additional incentive payment equal to 10% of revenue earned in excess of a predetermined amount during the incentive period ending May 31, 2020. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of InvestmentHouse.com to achieve revenue in excess of the targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be \$2,500, which approximated the present value based on the earn-out period of less than twelve months.

We will 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. During the period ending September 30, 2019, we recorded a net increase of \$700 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

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 Financial 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. During the period ending September 30, 2019, we recorded a net decrease of \$30,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

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. During the period ending

September 30, 2019, we recorded a net decrease of \$10,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period.

NOTE 5. REVENUE RECOGNITION

We recognize revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“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. The application of ASC Topic 606 requires us to use significant judgment and estimates. 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 September 30, 2019, our prepaid commission expense was \$0.6 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
	<i>(Dollars in thousands)</i>	
Balance, beginning of period January 1, 2019	\$ 11,537	\$ 1,379
Revenue recognized during the period that was included in the beginning balance of contract liabilities	(7,145)	—
Additional amounts recognized during the period	14,392	590
Revenue recognized during the period that was recorded during the period	(9,569)	—
Transfers	162	(162)
Balance, end of period September 30, 2019	<u>\$ 9,377</u>	<u>\$ 1,807</u>
Amount refundable at beginning of period	\$ 11,410	\$ 1,379
Amount refundable at end of period	\$ 9,287	\$ 1,807

We expect to satisfy these performance obligations as follows:

For the Twelve Months Ended September 30,	Amount	
	<i>(Dollars in thousands)</i>	
2020	\$	9,377
2021		667
2022		601
2023		248
2024		126
Thereafter		165
	<u>\$</u>	<u>11,184</u>

Significant Financing Component

The length of our typical sales agreement is less than 12 months, however, we may sell subscriptions with two-year terms. 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 October 1, 2020 and September 30, 2024. 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

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 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 estimated fair value of the goods or services we receive. Each transaction is 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.

Trade and barter revenues and expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
	<i>(Dollars in thousands)</i>			
Net broadcast barter revenue	\$ 1,384	\$ 1,366	\$ 4,915	\$ 4,080
Net digital media barter revenue	—	—	93	—
Net publishing barter revenue	3	17	10	33
Net broadcast barter expense	\$ 1,458	\$ 1,199	\$ 4,211	\$ 3,667
Net digital media barter expense	3	—	3	—
Net publishing barter expense	7	5	9	6

We elected the following policies permitted under ASC Topic 606:

- 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:

	Nine Months Ended September 30, 2019			
	Broadcast	Digital Media	Publishing	Consolidated
<i>(Dollars in thousands)</i>				
By Source of Revenue:				
Block Programming - National	\$ 36,517	\$ —	\$ —	\$ 36,517
Block Programming - Local	22,867	—	—	22,867
Spot Advertising - National	11,956	—	—	11,956
Spot Advertising - Local	38,467	—	—	38,467
Infomercials	1,091	—	—	1,091
Network	13,923	—	—	13,923
Digital Advertising	8,558	15,136	290	23,984
Digital Streaming	557	2,947	—	3,504
Digital Downloads and eBooks	—	4,196	1,232	5,428
Subscriptions	825	6,076	581	7,482
Book Sales and e-commerce, net of estimated sales returns and allowances	294	468	9,342	10,104
Self-Publishing Fees	—	—	4,258	4,258
Print Advertising	25	—	474	499
Other Revenues	7,774	526	885	9,185
	<u>\$ 142,854</u>	<u>\$ 29,349</u>	<u>\$ 17,062</u>	<u>\$ 189,265</u>
Timing of Revenue Recognition				
Point in Time	\$ 141,161	\$ 29,301	\$ 17,062	\$ 187,524
Rental Income (1)	1,693	48	—	1,741
	<u>\$ 142,854</u>	<u>\$ 29,349</u>	<u>\$ 17,062</u>	<u>\$ 189,265</u>

- (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 Condensed Consolidated Financial Statements within this report on Form 10-Q.

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 1½, 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 as 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.

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. 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 liabilities. 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 Payments for products are due in advance of shipping. We record a contract liability for customer payments received in advance of shipment. The time frame from the 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.

NOTE 6. INVENTORIES

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

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

	December 31, 2018	September 30, 2019
	<i>(Dollars in thousands)</i>	
Regnery® Publishing book inventories	\$ 1,317	\$ 1,912
Reserve for obsolescence – Regnery® Publishing	(930)	(1,263)
Inventory, net - Regnery® Publishing	387	649
Newport Natural Health Wellness products	\$ 354	\$ —
Reserve for obsolescence –Wellness products	(64)	—
Inventory, net –Wellness products	290	—
Consolidated inventories, net	\$ 677	\$ 649

NOTE 7. PROPERTY AND EQUIPMENT

We account for property and equipment in accordance with FASB ASC Topic 360-10 *Property, Plant and Equipment*.

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

	As of December 31, 2018	As of September 30, 2019
	<i>(Dollars in thousands)</i>	
Land	\$ 31,822	\$ 30,913
Buildings	30,104	30,009
Office furnishings and equipment	36,756	36,758
Antennae, towers and transmitting equipment	85,998	78,055
Studio, production and mobile equipment	29,040	29,059
Computer software and website development costs	27,603	27,914
Record and tape libraries	17	12
Automobiles	1,570	1,453
Leasehold improvements	19,357	18,665
Construction-in-progress	4,833	5,957
	<u>\$ 267,100</u>	<u>\$ 258,795</u>
Less accumulated depreciation	(170,756)	(170,478)
	<u>\$ 96,344</u>	<u>\$ 88,317</u>

Depreciation expense was approximately \$2.7 million and \$3.0 million for the three month periods ended September 30, 2019 and 2018, respectively, and \$8.5 million and \$9.1 million for the nine month periods ended September 30, 2019 and 2018, respectively. We periodically review long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. This review requires us to estimate the fair value of the assets using 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. There were no indications of impairment during the period ended September 30, 2019.

NOTE 8. OPERATING AND FINANCE LEASE RIGHT-OF-USE ASSETS

Leasing Transactions

Our leased assets include offices and studios, transmitter locations, antenna sites, tower and tower sites or land. Our current lease portfolio has remaining terms from less than one-year up to twenty years. Many of these leases contain options under which we can extend the term for five to twenty years. Renewal options are excluded from our calculation of lease liabilities unless we are reasonably assured to exercise the renewal option. Our lease agreements do not contain residual value guarantees or material restrictive covenants. 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 designated as Related Party leases in the details provided.

Operating leases are reflected on our balance sheet within operating lease ROU assets and the related current and non-current operating lease liabilities. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from lease agreement. Operating lease ROU assets and liabilities are recognized at the commencement date, or the date on which the lessor makes the underlying asset available for use, based upon the present value of the lease payments over the respective lease term. Lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectation regarding the terms. Variable lease costs such as common area maintenance, property taxes and insurance are expensed as incurred.

Balance Sheet

The adoption of ASC 842 resulted in recording a non-cash transitional adjustment to operating lease ROU assets and operating lease liabilities of \$65.0 million and \$74.4 million, respectively. The difference between the operating lease ROU assets and operating lease liabilities at transition represented existing deferred rent expense and prepaid rent that was derecognized upon adoption. During the nine month period ended September 30, 2019, we recorded additional ROU assets and corresponding lease liabilities of \$1.9 million.

Supplemental balance sheet information related to leases was as follows:

	September 30, 2019		
	<i>(Dollars in thousands)</i>		
Operating Leases	Related Party	Other	Total
Operating leases ROU assets	\$ 8,224	\$ 48,576	\$ 56,800
Operating lease liabilities (current)	945	7,246	8,191
Operating lease liabilities (non-current)	7,462	48,881	56,343
Total operating lease liabilities	<u>\$ 8,407</u>	<u>\$ 56,127</u>	<u>\$ 64,534</u>

Weighted Average Remaining Lease Term	
Operating leases	8.8 years
Finance leases	3.4 years
Weighted Average Discount Rate	
Operating leases	8.20%
Finance leases	4.54%

Lease Expense

The components of lease expense were as follows:

	Nine Months Ended September 30, 2019
	<i>(Dollars in thousands)</i>
Amortization of finance lease ROU Assets	\$ 77
Interest on finance lease liabilities	7
Finance lease expense	84
Operating lease expense	10,389
Variable lease expense	712
Short-term lease expense	629
Total lease expense	\$ 11,814

Supplemental Cash Flow

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30, 2019
	<i>(Dollars in thousands)</i>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 10,791
Operating cash flows from finance leases	11
Financing cash flows from finance leases	65
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,854
Leased assets obtained in exchange for new finance lease liabilities	14

Maturities

Future minimum lease payments required under leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2019, are as follows:

	Operating Leases			Finance Leases	Total
	Related Party	Other	Total		
	<i>(Dollars in thousands)</i>				
2019 (Oct-Dec)	\$ 416	\$ 1,959	\$ 2,375	\$ 75	\$ 2,450
2020	1,602	12,587	14,189	58	14,247
2021	1,619	11,485	13,104	45	13,149
2022	1,612	9,981	11,593	30	11,623
2023	1,169	8,909	10,078	8	10,086
Thereafter	6,112	37,992	44,104	—	44,104
Undiscounted Cash Flows	\$ 12,530	\$ 82,913	\$ 95,443	\$ 216	\$ 95,659
Less: imputed interest	(4,123)	(26,786)	(30,909)	(14)	(30,923)
Total	\$ 8,407	\$ 56,127	\$ 64,534	\$ 202	\$ 64,736
Reconciliation to lease liabilities:					
Lease liabilities - current	\$ 945	\$ 7,246	\$ 8,191	\$ 69	\$ 8,260
Lease liabilities - long-term	7,462	48,881	56,343	133	56,476
Total Lease Liabilities	\$ 8,407	\$ 56,127	\$ 64,534	\$ 202	\$ 64,736

Future minimum lease payments under leases that had initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2018, based on the former accounting guidance for leases, were as follows:

	Operating Leases			Finance Leases	Total
	Related Party	Other	Total		
	<i>(Dollars in thousands)</i>				
2019	\$ 1,730	\$ 11,633	\$ 13,363	\$ 58	\$ 13,421
2020	1,763	11,592	13,355	39	13,394
2021	1,767	10,596	12,363	31	12,394
2022	1,730	9,490	11,220	27	11,247
2023	1,234	8,584	9,818	8	9,826
Thereafter	13,364	48,109	61,473	—	61,473
	<u>\$ 21,588</u>	<u>\$ 100,004</u>	<u>\$ 121,592</u>	<u>\$ 163</u>	<u>\$ 121,755</u>

NOTE 9. 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 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.

At September 30, 2019, we performed an interim review of broadcast licenses for certain markets with revenues that were trending below the forecasted amounts used in the 2018 year-end valuations. We also noted station sales that indicate potential declines in market-dependent multiples. We believe that the downward trend noted during the third quarter of 2019 was more likely to prevail throughout the remainder of 2019 as compared to prior periods when the trend was not as prevalent. We performed an assessment of the amount by which the prior year estimated fair value exceeded the carrying value of the broadcast license and the year-to-date market revenues as compared to the forecasted market revenue used in the prior year valuation under the start-up income approach.

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 detail in Note 15 – Fair Value Measurements.

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 7 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, 2018	September 30, 2019
Risk-adjusted discount rate	9.0%	9.0%
Operating profit margin ranges	4.4% - 34.5%	4.3% - 30.7%
Long-term revenue growth rates	0.5% - 1.2%	0.7% - 1.1%

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 four of our market clusters were impaired as of the interim testing period ending September 30, 2019. We recorded an impairment charge of \$1.9 million to the value of broadcast licenses in Louisville, Philadelphia, Portland and San Francisco. The impairment charges were driven in part by decreases in the projected long-term revenue growth rates in certain markets or by overall market performance during the first nine months of 2019 that was below the market participant estimates used in the year-end valuations in certain markets. We believe that these decreases are indicative of trends in the industry as a whole and not unique to our company or operations.

The table below presents the results of our interim impairment testing under the start-up income approach at September 30, 2019:

Market Cluster	Excess Fair Value September 30, 2019 Estimate
Cleveland, OH	1.5%
Little Rock	15.1%
Louisville, KY	(15.2)%
Philadelphia, PA	(0.8)%
Portland, OR	(2.2)%
Sacramento, CA	6.6%
San Francisco, CA	(3.4)%

The following table presents the changes in broadcasting licenses that include acquisitions and divestitures of radio stations and FM translators.

Broadcast Licenses	Twelve Months Ended December 31, 2018	Nine Months Ended September 30, 2019
	<i>(Dollars in thousands)</i>	
Balance before cumulative loss on impairment, beginning of period	\$ 486,455	\$ 484,691
Accumulated loss on impairment, beginning of period	(105,541)	(108,375)
Balance after cumulative loss on impairment, beginning of period	380,914	376,316
Acquisitions of radio stations	6,270	616
Acquisitions of FM translators and construction permits	19	335
Abandoned capital projects	(40)	—
Dispositions of radio stations	(8,013)	(34,998)
Impairments based on the estimated fair value of broadcast licenses	(2,834)	(1,915)
Balance before cumulative loss on impairment, end of period	484,691	444,274
Accumulated loss on impairment, end of period	(108,375)	(103,920)
Balance after cumulative loss on impairment, end of period	\$ 376,316	\$ 340,354

NOTE 10. 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. There were no indications of impairment during the period ended September 30, 2019.

The following table presents the changes in goodwill including business acquisitions and dispositions as discussed in Note 3 of our Condensed Consolidated Financial Statements.

Goodwill	Twelve Months Ended December 31, 2018	Nine Months Ended September 30, 2019
	<i>(Dollars in thousands)</i>	
Balance before cumulative loss on impairment, beginning of period	\$ 28,453	\$ 28,818
Accumulated loss on impairment, beginning of period	(2,029)	(2,029)
Balance after cumulative loss on impairment, beginning of period	26,424	26,789
Acquisitions of radio stations	7	—
Acquisitions of digital media entities	986	6
Dispositions of radio stations	(628)	(29)
Dispositions of digital media entities	—	(341)
Balance before cumulative loss on impairment, end of period	28,818	28,454
Accumulated loss on impairment, end of period	(2,029)	(2,029)
Balance after cumulative loss on impairment, end of period	\$ 26,789	\$ 26,425

NOTE 11. 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. There were no indications of impairment during the period ended September 30, 2019.

NOTE 12. AMORTIZABLE INTANGIBLE ASSETS

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

	As of September 30, 2019		
	Cost	Accumulated Amortization	Net
	<i>(Dollars in thousands)</i>		
Customer lists and contracts	\$ 23,833	\$ (21,510)	\$ 2,323
Domain and brand names	20,332	(17,347)	2,985
Favorable and assigned leases	2,188	(1,911)	277
Subscriber base and lists	9,886	(7,988)	1,898
Author relationships	2,771	(2,571)	200
Non-compete agreements	2,041	(1,758)	283
Other amortizable intangible assets	1,666	(1,462)	204
	<u>\$ 62,717</u>	<u>\$ (54,547)</u>	<u>\$ 8,170</u>
	<i>(Dollars in thousands)</i>		
	As of December 31, 2018		
	Cost	Accumulated Amortization	Net
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
	<u>\$ 64,444</u>	<u>\$ (53,180)</u>	<u>\$ 11,264</u>

Amortization expense was approximately \$1.1 million and \$1.6 million for the three month periods ended September 30, 2019 and 2018, respectively, and \$3.5 million and \$4.6 million for the nine month periods ended September 30, 2019 and 2018, respectively.

Based on the amortizable intangible assets as of September 30, 2019, we estimate amortization expense for the next five years to be as follows:

Year Ended December 31,	Amortization Expense	
	<i>(Dollars in thousands)</i>	
2019 (Oct – Dec)	\$	1,069
2020		3,265
2021		1,783
2022		1,146
2023		627
Thereafter		280
Total	\$	8,170

NOTE 13. LONG-TERM DEBT

Salem Media Group, Inc. has no independent assets or operations, the subsidiary guarantees relating to certain debt 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 are secured by a first-priority lien on substantially all 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 (viii) 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 \$15.7 million per year in interest on the Notes. As of September 30, 2019, accrued interest on the Notes was \$5.2 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 three and nine month periods ended September 30, 2019, \$0.2 million and \$0.6 million, respectively, of debt issuance costs associated with the Notes was amortized to interest expense. During the three and nine month periods ended September 30, 2018, \$0.2 million and \$0.7 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
<i>(Dollars in thousands)</i>					
March 28, 2019	\$ 2,000	\$ 1,830	91.50 %	\$ 37	\$ 134
March 28, 2019	2,300	2,125	92.38 %	42	133
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
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
	<u>\$ 23,100</u>	<u>\$ 21,566</u>		<u>\$ 461</u>	<u>\$ 1,074</u>

Asset-Based Revolving Credit Facility

On May 19, 2017, the Company entered into the Asset Based Loan (“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 LIBOR rate scheduled to be discontinued at the end of calendar year 2021 would result in all outstanding borrowings subject to the higher base rate borrowing. We expect to amend the ABL prior to the LIBOR phaseout based on the ABL maturity date of May 19, 2022.

Availability under the ABL is subject to a borrowing base consisting of (a) 85% of the eligible accounts receivable plus (b) a calculated amount based on the value of certain real property. As of September 30, 2019, the amount available under the ABL was \$26.2 million of which \$18.1 million was outstanding. 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”) 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 \$0.8 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 three and nine month periods ended September 30, 2019, \$50,000 and \$0.2 million, respectively, of debt issue costs associated with the Notes was amortized to interest expense. During the three and nine month periods ended September 30, 2018, \$53,000 and \$0.2 million of debt issue costs associated with the Notes was recognized as interest expense. At September 30, 2019, the blended interest rate on amounts outstanding under the ABL Facility was 4.11%.

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.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2018	As of September 30, 2019
	<i>(Dollars in thousands)</i>	
6.75% Senior Secured Notes	\$ 238,570	\$ 231,900
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	(4,540)	(3,809)
6.75% Senior Secured Notes net carrying value	234,030	228,091
Asset-Based Revolving Credit Facility principal outstanding	19,660	18,065
Total long-term debt less unamortized debt issuance costs	253,690	246,156
Less current portion	(19,660)	(18,065)
Long-term debt less unamortized debt issuance costs, net of current portion	\$ 234,030	\$ 228,091

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of September 30, 2019:

- \$18.1 million under the ABL Facility, with interest spread ranging from Base Rate plus 0.50% to 1.00% for base rate borrowings and LIBOR plus 1.50% to 2.00% for LIBOR rate borrowings;
- \$231.9 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.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at September 30, 2019 for each of the next five years and thereafter are as follows:

For the Twelve Months Ended September 30,	Amount
	<i>(Dollars in thousands)</i>
2020	\$ 18,065
2021	—
2022	—
2023	—
2024	231,900
Thereafter	—
	\$ 249,965

NOTE 14. 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.

As of September 30, 2019, we did not have any outstanding derivative instruments.

NOTE 15. FAIR VALUE MEASUREMENTS

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” FASB ASC Topic 820 *Fair Value Measurements and Disclosures*, established a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring fair value. This framework defines three levels of inputs to the fair value measurement process and requires that each fair value measurement be assigned to a level corresponding to the lowest level input that is significant to the fair value measurement in its entirety. The three broad levels of inputs defined by the FASB ASC Topic 820 hierarchy are as follows:

- *Level 1 Inputs*—quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- *Level 2 Inputs*—inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability; and
- *Level 3 Inputs*—unobservable inputs for the asset or liability. These unobservable inputs reflect the entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances (which might include the reporting entity’s own data).

Under ASC 820, a fair value measurement of a nonfinancial asset considers a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Therefore, fair value is a market-based measurement and not an entity-specific measurement. It is determined based on assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity’s intent and/or ability to sell the asset or transfer the liability at the measurement date.

As of September 30, 2019, 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 September 30, 2019 was \$231.9 million compared to the estimated fair value of \$202.3 million, based on the prevailing interest rates and trading activity of our Notes.

We have certain assets that are measured at fair value on a non-recurring basis that are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3 due to the subjective nature of the unobservable inputs used when estimating the fair value.

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

	Carrying Value on Balance Sheet	September 30, 2019		
		Fair Value Measurement Category		
		Level 1	Level 2	Level 3
<i>(Dollars in thousands)</i>				
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	19	—	—	19
Long-term debt less unamortized debt issuance costs	246,156	—	216,589	—

NOTE 16. 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 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 our Form 10-K filing.

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. As a result of our adjusted cumulative three-year pre-tax book loss as of September 30, 2019, we performed an assessment of positive and negative evidence with respect to the realization of our net deferred tax assets. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, the availability of carryforwards and estimates of projected future taxable income. Based on this assessment, we concluded that additional deferred tax assets of \$5.4 million are not more likely than not to be realized. As such, an additional valuation allowance of \$5.4 million for a total valuation allowance of \$10.8 million, is recorded for the period ended September 30, 2019.

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

Valuation Allowance (Deferred Taxes)

For financial reporting purposes a valuation allowance of \$10.8 million offsets deferred tax assets at September 30, 2019. We regularly review our financial forecasts to determine our ability to utilize the net operating loss carryforwards for tax purposes. Accordingly, the valuation allowance is adjusted periodically based on our estimate of the benefit the company will receive from such carryforwards.

NOTE 17. 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 condensed consolidated financial position, results of operations or cash flows.

NOTE 18. 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.

At the annual meeting of the company held on May 8, 2019, the Company’s stockholders approved a revision to the Plan increasing the number of shares authorized by 3,000,000. As a result, a maximum of 8,000,000 shares 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. The following table reflects the components of stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
	<i>(Dollars in thousands)</i>			
Stock option compensation expense included in unallocated corporate expenses	\$ 120	\$ 43	\$ 220	\$ 229
Restricted stock shares compensation expense included in unallocated corporate expenses	—	100	—	523
Stock option compensation expense included in broadcast operating expenses	40	20	82	88
Restricted stock shares compensation expense included in broadcast operating expenses	—	—	—	383
Stock option compensation expense included in digital media operating expenses	27	12	50	58
Stock option compensation expense included in publishing operating expenses	4	2	11	8
Total stock-based compensation expense, pre-tax	\$ 191	\$ 177	\$ 363	\$ 1,289
Tax expense for stock-based compensation expense	(49)	(46)	(94)	(335)
Total stock-based compensation expense, net of tax	\$ 142	\$ 131	\$ 269	\$ 954

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 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 is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rates for periods within the expected term of the award are based on the U.S. Treasury yield curve in effect during the period the options were granted. We have used historical data to estimate future forfeiture rates to apply against the gross amount of compensation expense determined using the valuation model. These estimates have approximated our actual forfeiture rates.

The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes valuation model were as follows for the three and nine month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Expected volatility	n/a	41.84%	50.45%	50.07%
Expected dividends	n/a	7.89%	15.75%	14.91%
Expected term (in years)	n/a	7.4	7.7	7.7
Risk-free interest rate	n/a	2.93%	1.71%	1.83%

Activity with respect to the Company's option awards during the nine month period ended September 30, 2019 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)</i>					
Outstanding at January 1, 2019	1,980,972	\$ 4.63	\$ 2.61	4.1 years	\$ —
Granted	38,750	1.80	0.30		—
Exercised	(200)	2.38	2.05		—
Forfeited or expired	(185,050)	5.81	4.14		\$ 2
Outstanding at September 30, 2019	1,834,472	\$ 4.47	\$ 2.42	3.8 years	\$ —
Exercisable at September 30, 2019	1,264,344	\$ 4.93	\$ 2.79	2.5 years	\$ —
Expected to Vest	541,337	\$ 4.49	\$ 2.43	3.7 years	\$ —

On July 5, 2019, we issued 41,323 restricted shares that vested immediately to our Chief Executive Officer under an election made pursuant to his employment agreement. The fair value of the restricted stock award was measured based on the grant date market price of our common shares. The restricted stock award contains transfer restrictions under which they cannot be sold, pledged, transferred or assigned for two years. The restricted stock awards provide 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 awards are considered issued and outstanding from the date of grant.

On May 14, 2019, a restricted stock award of 119,049 shares was granted to our Chief Executive Officer and Chairman of the board 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 for 10 days. 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 date of grant.

On May 8, 2019, a restricted stock award of 270,012 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 for 10 days. 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 date of grant.

Activity with respect to the Company's restricted stock awards during the nine month period ended September 30, 2019 is as follows:

Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<i>(Dollars in thousands, except weighted average exercise price and weighted average grant date fair value)</i>				
Outstanding at January 1, 2019	—	\$ —	—	\$ —
Granted	430,384	2.11	—	906
Lapsed	(389,061)	2.07	—	919
Forfeited	—	—	—	—
Outstanding at September 30, 2019	41,323	\$ 2.42	1.76	\$ 63

The aggregate intrinsic value represents the difference between the Company's closing stock price on September 30, 2019 of \$1.53 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 periods ended September 30, 2019 and 2018 was \$0.7 million and \$0.3 million, respectively.

As of September 30, 2019, there was \$58,000 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 1.7 years.

NOTE 19. EQUITY TRANSACTIONS

We account for stock-based compensation expense in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. As a result, \$0.2 million and \$1.3 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and nine month periods ended September 30, 2019, respectively, in comparison to \$0.2 million and \$0.4 million of non-cash stock-based compensation expense has been recorded to additional paid-in capital for the three and nine month periods ended September 30, 2018, 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, 2018:

Announcement Date	Payment Date	Amount Per Share	Cash Distributed (in thousands)
September 11, 2019	September 30, 2019	\$ 0.0650	\$ 1,730
May 14, 2019	June 28, 2019	\$ 0.0650	1,728
March 7, 2019	March 29, 2019	\$ 0.0650	1,702
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

Based on the number of shares of Class A and Class B currently outstanding, we expect to pay total annual distributions of approximately \$6.9 million during the year ended December 31, 2019.

NOTE 20. 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 1,834,472 and 1,989,472 shares of Class A common stock were outstanding at September 30, 2019 and 2018, respectively. Diluted weighted average shares outstanding exclude outstanding stock options whose exercise price is in excess of the average price of the company's stock price. These options are excluded from the respective computations of diluted net income or loss per share because their effect would be anti-dilutive.

NOTE 21. 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 condensed consolidated statements of operations included in this quarterly report on Form 10-Q. 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™ ("SRNTM"), 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. SRNTM delivers programming via satellite to approximately 3,200 affiliated radio stations throughout the United States, including several of our Salem-owned stations. SRNTM operates five divisions, SRNTM Talk, SRNTM News, SRNTM Websites, SRNTM 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 B 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®, 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 included Newport Natural Health, a seller of nutritional supplements through the date of sale on March 21, 2019.

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 September 30, 2019 and 2018 based on the composition of our operating segments:

	Broadcast	Digital Media	Publishing	Unallocated Corporate Expenses	Consolidated
<i>(Dollars in thousands)</i>					
Three Months Ended September 30, 2019					
Net revenue	\$ 47,679	\$ 9,149	\$ 7,288	\$ —	\$ 64,116
Operating expenses	37,310	7,282	6,517	4,183	55,292
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairments and net (gain) loss on the disposition of assets	\$ 10,369	\$ 1,867	\$ 771	\$ (4,183)	\$ 8,824
Depreciation	1,720	764	80	180	2,744
Amortization	8	929	210	—	1,147
Change in the estimated fair value of contingent earn-out consideration	—	(40)	—	—	(40)
Impairment of indefinite-lived long-term assets other than goodwill	1,915	—	—	—	1,915
Net (gain) loss on the disposition of assets	17,539	6	—	—	17,545
Net operating income (loss)	\$ (10,813)	\$ 208	\$ 481	\$ (4,363)	\$ (14,487)
Three Months Ended September 30, 2018					
Net revenue	\$ 48,812	\$ 10,397	\$ 6,319	\$ —	\$ 65,528
Operating expenses	37,158	8,021	6,210	3,987	55,376
Net operating income (loss) before depreciation, amortization and net (gain) loss on the disposition of assets	\$ 11,654	\$ 2,376	\$ 109	\$ (3,987)	\$ 10,152
Depreciation	1,923	777	128	204	3,032
Amortization	9	1,370	225	—	1,604
Net (gain) loss on the disposition of assets	(759)	—	—	—	(759)
Net operating income (loss)	\$ 10,481	\$ 229	\$ (244)	\$ (4,191)	\$ 6,275
<i>(Dollars in thousands)</i>					
Nine Months Ended September 30, 2019					
Net revenue	\$ 142,854	\$ 29,349	\$ 17,062	\$ —	\$ 189,265
Operating expenses	111,466	22,988	17,112	12,386	163,952
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration, impairments and net (gain) loss on the disposition of assets	\$ 31,388	\$ 6,361	\$ (50)	\$ (12,386)	\$ 25,313
Depreciation	5,399	2,302	289	539	8,529
Amortization	26	2,907	633	1	3,567
Change in the estimated fair value of contingent earn-out consideration	—	(40)	—	—	(40)
Impairment of indefinite-lived long-term assets other than goodwill	1,915	—	—	—	1,915
Net (gain) loss on the disposition of assets	20,951	260	1	—	21,212
Net operating income (loss)	\$ 3,097	\$ 932	\$ (973)	\$ (12,926)	\$ (9,870)
Nine Months Ended September 30, 2018					
Net revenue	\$ 147,425	\$ 31,051	\$ 17,119	\$ —	\$ 195,595
Operating expenses	110,151	24,792	17,319	11,938	164,200
Net operating income (loss) before depreciation, amortization, change in the estimated fair value of contingent earn-out consideration and net (gain) loss on the disposition of assets	\$ 37,274	\$ 6,259	\$ (200)	\$ (11,938)	\$ 31,395
Depreciation	5,692	2,346	388	650	9,076
Amortization	29	3,818	710	1	4,558
Change in the estimated fair value of contingent earn-out consideration	—	72	—	—	72
Net (gain) loss on the disposition of assets	4,400	—	—	—	4,400
Net operating income (loss)	\$ 27,153	\$ 23	\$ (1,298)	\$ (12,589)	\$ 13,289

	Broadcast	Digital Media	Publishing	Unallocated Corporate	Consolidated
<i>(Dollars in thousands)</i>					
As of September 30, 2019					
Inventories, net	\$ —	\$ —	\$ 649	\$ —	\$ 649
Property and equipment, net	73,383	6,301	817	7,816	88,317
Broadcast licenses	340,354	—	—	—	340,354
Goodwill	2,930	21,599	1,888	8	26,425
Other indefinite-lived intangible assets	—	—	277	—	277
Amortizable intangible assets, net	277	6,503	1,388	2	8,170
As of December 31, 2018					
Inventories, net	\$ —	\$ 290	\$ 387	\$ —	\$ 677
Property and equipment, net	81,269	6,184	933	7,958	96,344
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

NOTE 22. SUBSEQUENT EVENTS

On October 31, 2019, we entered into an agreement to sell radio station WBZW-AM in Orlando, Florida, and an FM translator construction permit for \$0.2 million in cash. We expect to recognize a pre-tax loss of approximately \$1.7 million in the fourth quarter of 2019, which reflects the sale price as compared to the carrying value of the assets less the estimated closing costs. The transaction is subject to the approval of the FCC and is expected to close in mid-2020.

On October 17, 2019, we entered into a TBA with the buyer of radio station WWDJ-AM in Boston, Massachusetts, under which the buyer began programming the station on October 25, 2019. The TBA is expected to continue through the closing date.

On October 17, 2019, we entered into a TBA with the buyer of radio station KEXB-AM (formerly KTNO-AM) in Dallas, Texas, under which the buyer began programming the station on October 24, 2019. The TBA is expected to continue through the closing date.

On October 17, 2019, we entered into a TBA with the buyer of radio station WAFS-AM in Atlanta, Georgia, under which the buyer began programming the station on October 23, 2019. The TBA is expected to continue through the closing date.

On October 17, 2019, we entered into a TBA with the buyer of radio station KR DY-AM in San Antonio, Texas, under which the buyer began programming the station on October 22, 2019. The TBA is expected to continue through the closing date.

On October 5, 2019, we issued 66,667 restricted shares that vested immediately to our Chief Executive Officer under an election made pursuant to his employment agreement. The fair value of the restricted stock award was measured based on the grant date market price of our common shares. The restricted stock award contains transfer restrictions under which they cannot be sold, pledged, transferred or assigned for two years. The restricted stock awards provide 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 awards are considered issued and outstanding from the date of grant.

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

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

General

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 Condensed Consolidated Financial Statements and related notes included elsewhere in this report on Form 10-Q and our audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2018. Our Condensed Consolidated Financial Statements are not directly comparable from period to period due to acquisitions and dispositions. Refer to Note 3 of our Condensed Consolidated Financial Statements on Form 10-Q 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 including the transition from LIBOR as an interest rate benchmark to other potential alternative reference 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; and
- the number of video and graphic downloads.

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;
- 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. Revenues generated from our radio stations, networks and sales firms are reported as broadcast media revenue in our Condensed Consolidated Financial Statements included in Part 1 of this quarterly report on Form 10-Q. 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 monthly reports measuring a radio station's audience share in the demographic groups targeted by advertisers. Each of our radio stations and our networks has a pre-determined level of time available for block programming and/or advertising, which may vary at different times of the day.

Nielsen Audio uses the Portable People Meter™ ("PPM") technology to collect data for its ratings service. PPM is a small device that is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals encoded by the broadcaster. The PPM offers a number of advantages over traditional diary ratings collection systems, including ease of use, more reliable ratings data, shorter time periods between when advertising runs and actual listening data, and little manipulation of data by users. A disadvantage of the PPM includes data fluctuations from changes to the "panel" (a group of individuals holding PPM devices). This makes all stations susceptible to some inconsistencies in ratings that may or may not accurately reflect the actual number of listeners at any given time. We subscribe to Nielsen Audio for ratings services in only 22 of our markets.

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.

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 is 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 nine months ended September 30, 2019 and 2018, 97% of our broadcast revenue was sold for cash.

Broadcast operating expenses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as lease cost 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. Revenues generated this segment are reported as digital media revenue in our Condensed Consolidated Financial Statements included in Part 1 of this quarterly report on Form 10-Q.

Digital media revenues are impacted by the rates our sites can charge for advertising time, the level of advertisements sold, the number of impressions delivered or the number of 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.

Digital media operating expenses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as lease costs 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. Revenues generated from this segment are reported as publishing revenue in our Condensed Consolidated Financial Statements included in Part 1 of this quarterly report on Form 10-Q.

Publishing revenue is impacted by the number and the retail price of books and 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.

Publishing operating expenses include: (i) employee salaries, commissions and related employee benefits and taxes, (ii) facility expenses such as lease costs 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

We believe that broadcast revenue growth remains challenged 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 advertising from our Los Angeles and Dallas markets, which generated 15.1% and 20.5%, respectively, of our net broadcast advertising revenue during the nine month period ended September 30, 2019.

Revenues from print magazines, including advertising revenue and subscription revenues, are challenged due to lower demand from the audiences that increasingly use 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 negatively 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 lease expense is recorded on a straight-line basis over the lease term, we expect our lease expense to increase by approximately \$0.6 million per annum as compared to prior periods. Actual cash payments for leased properties are expected to remain consistent with annual increases of generally 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 measure to SOI), because it is generally recognized by the radio broadcasting industry as a tool in measuring performance and in applying valuation methodologies for companies in the media, entertainment and communications industries. SOI is commonly used by investors and analysts who report on the industry to provide comparisons between broadcasting groups. We use SOI as one of the key measures of operating efficiency and profitability, including our internal reviews associated with impairment analysis of our indefinite-lived intangible assets. SOI does not purport to represent cash provided by operating activities. Our statement of cash flows presents our cash activity in accordance with GAAP and our income statement presents our financial performance prepared in accordance with GAAP. Our definition of SOI is not necessarily comparable to similarly titled measures reported by other companies.

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

We apply a similar methodology to our digital media and publishing group. Digital Media Operating Income is defined as net digital media revenue less digital media operating expenses. Publishing Operating Income (Loss) is defined as net publishing revenue less publishing operating expenses. Digital Media Operating Income and Publishing Operating Income (Loss) are not measures of performance in accordance with GAAP. Our presentations of these non-GAAP financial performance measures are not to be considered a substitute for or superior to our operating results reported in accordance with GAAP. We believe that Digital Media Operating Income and Publishing Operating Income 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 sale or 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 (gain) loss on early retirement of debt, before (gain) loss from discontinued operations and before non-cash compensation expense. EBITDA and Adjusted EBITDA are commonly used by the broadcast and media industry as important measures of performance and are used by investors and analysts who report on the industry to provide meaningful comparisons between broadcasters. EBITDA and Adjusted EBITDA are not measures of liquidity or of performance in accordance with GAAP and should be viewed as a supplement to and not a substitute for or superior to our results of operations and financial condition presented in accordance with GAAP. Our definitions of EBITDA and Adjusted EBITDA are not necessarily comparable to similarly titled measures reported by other companies.

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

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

Reconciliation of Non-GAAP Financial Measures:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
<i>(Dollars in thousands)</i>				
Reconciliation of Net Broadcast Revenue to Same Station Net Broadcast Revenue				
Net broadcast revenue	\$ 48,812	\$ 47,679	\$ 147,425	\$ 142,854
Net broadcast revenue – acquisitions	(10)	(28)	(257)	(274)
Net broadcast revenue – dispositions	(1,102)	(557)	(2,335)	(606)
Net broadcast revenue – format change	(543)	(593)	(999)	(1,102)
Same Station net broadcast revenue	<u>\$ 47,157</u>	<u>\$ 46,501</u>	<u>\$ 143,834</u>	<u>\$ 140,872</u>
Reconciliation of Broadcast Operating Expenses To Same Station Broadcast Operating Expenses				
Broadcast operating expenses	\$ 37,158	\$ 37,310	\$ 110,151	\$ 111,466
Broadcast operating expenses – acquisitions	(11)	(31)	(382)	(398)
Broadcast operating expenses – dispositions	(1,379)	(762)	(2,720)	(799)
Broadcast operating expenses – format change	(591)	(635)	(1,331)	(1,412)
Same Station broadcast operating expenses	<u>\$ 35,177</u>	<u>\$ 35,882</u>	<u>\$ 105,718</u>	<u>\$ 108,857</u>
Reconciliation of Operating Income to Same Station Operating Income				
Station Operating Income	\$ 11,654	\$ 10,369	\$ 37,274	\$ 31,388
Station operating loss – acquisitions	1	3	125	124
Station operating loss – dispositions	277	205	385	193
Station operating loss – format change	48	42	332	310
Same Station – Station Operating Income	<u>\$ 11,980</u>	<u>\$ 10,619</u>	<u>\$ 38,116</u>	<u>\$ 32,015</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
<i>(Dollars in thousands)</i>				
Calculation of Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)				
Net broadcast revenue	\$ 48,812	\$ 47,679	\$ 147,425	\$ 142,854
Less broadcast operating expenses	(37,158)	(37,310)	(110,151)	(111,466)
Station Operating Income	<u>\$ 11,654</u>	<u>\$ 10,369</u>	<u>\$ 37,274</u>	<u>\$ 31,388</u>
Net digital media revenue	\$ 10,397	\$ 9,149	\$ 31,051	\$ 29,349
Less digital media operating expenses	(8,021)	(7,282)	(24,792)	(22,988)
Digital Media Operating Income	<u>\$ 2,376</u>	<u>\$ 1,867</u>	<u>\$ 6,259</u>	<u>\$ 6,361</u>
Net publishing revenue	\$ 6,319	\$ 7,288	\$ 17,119	\$ 17,062
Less publishing operating expenses	(6,210)	(6,517)	(17,319)	(17,112)
Publishing Operating Income (Loss)	<u>\$ 109</u>	<u>\$ 771</u>	<u>\$ (200)</u>	<u>\$ (50)</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
<i>(Dollars in thousands)</i>				
Reconciliation of Net Income (Loss) to Operating Income and Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)				
Net income (loss)	\$ 1,207	\$ (20,005)	\$ (132)	\$ (23,327)
Plus provision for (benefit from) income taxes	564	1,108	(132)	697
Plus net miscellaneous income and (expenses)	(1)	—	12	(19)
Plus (gain) on early retirement of long-term debt	—	—	(234)	(426)
Plus interest expense, net of capitalized interest	4,507	4,410	13,779	13,206
Less interest income	(2)	—	(4)	(1)
Net operating income (loss)	\$ 6,275	\$ (14,487)	\$ 13,289	\$ (9,870)
Plus net (gain) loss on the disposition of assets	(759)	17,545	4,400	21,212
Plus change in the estimated fair value of contingent earn-out consideration	—	(40)	72	(40)
Plus impairment of indefinite-lived long-term assets other than goodwill	—	1,915	—	1,915
Plus depreciation and amortization	4,636	3,891	13,634	12,096
Plus unallocated corporate expenses	3,987	4,183	11,938	12,386
Combined Station Operating Income, Digital Media Operating Income and Publishing Operating Income (Loss)	\$ 14,139	\$ 13,007	\$ 43,333	\$ 37,699
Station Operating Income	\$ 11,654	\$ 10,369	\$ 37,274	\$ 31,388
Digital Media Operating Income	2,376	1,867	6,259	6,361
Publishing Operating Income (Loss)	109	771	(200)	(50)
	\$ 14,139	\$ 13,007	\$ 43,333	\$ 37,699

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
<i>(Dollars in thousands)</i>				
Reconciliation of Adjusted EBITDA to EBITDA to Net Income (Loss)				
Net income (loss)	\$ 1,207	\$ (20,005)	\$ (132)	\$ (23,327)
Plus interest expense, net of capitalized interest	4,507	4,410	13,779	13,206
Plus provision for (benefit from) income taxes	564	1,108	(132)	697
Plus depreciation and amortization	4,636	3,891	13,634	12,096
Less interest income	(2)	—	(4)	(1)
EBITDA	\$ 10,912	\$ (10,596)	\$ 27,145	\$ 2,671
Plus net (gain) loss on the disposition of assets	(759)	17,545	4,400	21,212
Plus change in the estimated fair value of contingent earn-out consideration	—	(40)	72	(40)
Plus impairment of indefinite-lived long-term assets other than goodwill	—	1,915	—	1,915
Plus net miscellaneous (income) and expenses	(1)	—	12	(19)
Plus (gain) on early retirement of long-term debt	—	—	(234)	(426)
Plus non-cash stock-based compensation	191	177	363	1,289
Plus ASC 842 lease adoption	—	—	—	171
Adjusted EBITDA	\$ 10,343	\$ 9,001	\$ 31,758	\$ 26,773

RESULTS OF OPERATIONS

Three months ended September 30, 2019 compared to the three months ended September 30, 2018

The following factors affected our results of operations and cash flows for the three months ended September 30, 2019 as compared to the same period of the prior year:

Acquisitions, Divestitures and Other Transactions

- On September 27, 2019, we closed on the exchange of radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. No cash was exchanged for the assets. We recognized a non-cash pre-tax loss of \$1.3 million on the exchange based on the estimated fair value of KPAM-AM as compared to the carrying value of KKOL-AM and the closing costs.
- On September 26, 2019, we sold radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida for \$8.2 million in cash. We recognized a pre-tax loss of \$4.7 million, which reflects the sales price as compared to the carrying value of the assets of the radio stations and the closing costs. We received \$0.4 million in cash upon closing and will receive the remaining \$7.8 million in cash upon finalization of the assignment applications with the FCC.
- On September 18, 2019, we sold radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida for \$0.9 million in cash. We recognized a pre-tax loss of \$1.6 million, which reflects the sales price as compared to the carrying value of the radio station assets and the closing costs.
- On August 15, 2019 we closed on the exchange of FM Translator W276CR, in Bradenton, FL for FM Translator W262CP in Bayonet Point, FL. No cash was exchanged for the assets.
- On July 25, 2019, we acquired the Journeyboxmedia.com website and related assets for \$0.5 million in cash.
- On July 10, 2019 we acquired certain assets including a digital content library from Steelehouse Productions, Inc. for \$0.1 million in cash.

Net Broadcast Revenue

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Broadcast Revenue	\$ 48,812	\$ 47,679	\$ (1,133)	(2.3)%	74.5%	74.4%
Same Station Net Broadcast Revenue	\$ 47,157	\$ 46,501	\$ (656)	(1.4)%		

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

	Three Months Ended September 30,			
	2018		2019	
	<i>(Dollars in thousands)</i>			
Block Programming:				
National	\$ 12,516	25.6%	\$ 12,198	25.6%
Local	8,341	17.1	7,547	15.8
	20,857	42.7	19,745	41.4
Broadcast Advertising:				
National	3,870	7.9	3,968	8.3
Local	13,435	27.5	12,781	26.8
	17,305	35.4	16,749	35.1
Station Digital (local)	2,221	4.6	3,738	7.8
Infomercials	458	0.9	340	0.8
Network	4,902	10.1	4,662	9.8
Other Revenue	3,069	6.3	2,445	5.1
Net Broadcast Revenue	\$ 48,812	100.0%	\$ 47,679	100.0%

Block programming revenue declined by \$1.1 million including a \$0.8 million decline in local programming revenue and a \$0.3 million decline in national programming revenue. Declines in local programming revenue include a \$0.4 million decrease from our Christian Teaching and Talk format radio stations, a \$0.2 million decrease from our News Talk format radio stations and a \$0.1 million decrease from our Business format radio stations. The declines were due to the impact of stations that we no longer operate and program cancellations, including certain programs discontinuing their ministry efforts and due to what we believe is increased competition from other broadcasters and podcasts. Declines in national programming revenue, also resulting from an increase in competition from other broadcasters, include a \$0.2 million decrease from our Christian Teaching and Talk format radio stations and a \$0.1 million decrease from our Business format radio stations.

Total advertising revenue, net of agency commissions, declined by \$0.5 million, including a \$0.4 million decline in political advertising. Excluding political, the \$0.1 million net decline includes a \$0.4 million decline in local advertising offset by a \$0.3 million increase in national advertising revenue. Declines in local advertising net of political, include a \$0.1 million decline from our Contemporary Christian Music (“CCM”) format radio stations that were largely attributable to lower spot rates charged due to competition from other broadcasters that offer lower rates primarily in the Dallas market and a \$0.1 million decline from the sale of radio station KGBI-FM in Omaha, Nebraska, and a \$0.2 million decline from our News Talk format radio stations primarily in our Chicago and Los Angeles markets.

Station digital revenue, or local digital revenue generated from our radio stations and networks, increased by \$1.5 million from the growth of digital product offerings through Salem Surround, our national multimedia digital advertising agency launched in 2018 that provides digital marketing services to our customers. We continue to expand our digital product offerings including social media campaigns, search engine optimization, retargeted advertising and other services to increase our market share as advertising dollars shift away from pure broadcast to include digital and digital technologies. 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, exclusive of digital, declined by \$0.2 million due to a \$0.6 million decline in political advertising that was offset with a \$0.4 million increase in national spot sales for network programs.

Other revenue declined by \$0.6 million due to a \$0.4 million decrease in event revenue due to a reduction in the number of events held, a \$0.1 million decrease in listener purchase program revenue due to lower demand from listeners to participate in sales incentives and discounts offered under vendor discount programs, and a \$0.1 million decrease in LMA fees associated with radio station WQVN-AM, Miami, Florida, which was sold on August 28, 2018. 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 decreased \$0.7 million, which reflects these items net of the impact of stations acquired or disposed and net of the impact of stations subject to format changes.

Net Digital Media Revenue

	Three Months Ended September 30,									
	2018		2019		Change					
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>					
Net Digital Media Revenue	\$	10,397	\$	9,149	\$	(1,248)	(12.0)%	2018	2019	% of Total Net Revenue
								15.9%	14.3%	

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

	Three Months Ended September 30,					
	2018		2019			
	<i>(Dollars in thousands)</i>					
Digital Advertising, net	\$	5,282	50.8%	\$	4,820	52.7%
Digital Streaming		1,053	10.1		966	10.5
Digital Subscriptions		2,253	21.7		2,005	21.9
Digital Downloads		1,226	11.8		1,232	13.5
e-commerce		491	4.7		25	0.3
Other Revenues		92	0.9		101	1.1
Net Digital Media Revenue	\$	10,397	100.0%	\$	9,149	100.0%

Digital advertising revenue, net of agency commissions, or national digital revenue generated from SWN, related content sites and digital publications, decreased by \$0.5 million on a consolidated basis. SWN digital advertising revenue declined by \$0.6 million including a \$0.2 million decline in digital banner advertising and a \$0.4 million decline in digital email advertising revenue due to a reduction in the number of advertisements placed. This was offset by a \$0.1 million net increase from our conservative opinion websites within Townhall Media, which includes a \$0.2 million increase from our March 2019 acquisition of pjmedia.com partially offset by \$0.1 million consolidated decline that includes the impact of the February 27, 2019 sale of HumanEvents.com. Reductions in the number of advertisements placed are the result of advertisers moving spending to digital programmatic advertisers, specifically Facebook and Google, and advertisers deciding to cut or eliminate advertising on political content websites. We continue to acquire, develop and promote the use of mobile applications, particularly for our Christian and Conservative 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 Condensed Consolidated Financial Statements. Because mobile page views carry fewer advertisements and tend to have shorter site visits as compared to desktop, our growth in mobile page views exceeds our growth in revenue generated from mobile applications.

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

Digital subscription revenue decreased by \$0.2 million on a consolidated basis reflecting a \$0.3 million decline in revenue from a reduction in the number of subscribers including a 20% decline in subscribers to Dr. Mark Skousen and a 37% decline in subscribers to James Woods, offset with a \$0.1 million increase in revenue from our June 2019 acquisition of InvestmentHouse.com.

Digital download revenue was consistent with the same period of the prior year including a \$0.1 million increase from our acquisition of Childrens-Ministry-Deals.com in July 2018 offset by a \$0.1 million decline from our church product websites, WorshipHouseMedia.com and SermonSpice™.com. There were no significant changes in rates as compared to the same period of the prior year.

E-commerce revenue decreased by \$0.5 million due to the sale of Newport Natural Health, an e-commerce website operated by Eagle Wellness in the first quarter of 2019.

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

Net Publishing Revenue

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net Publishing Revenue	\$ 6,319	\$ 7,288	\$ 969	15.3 %	9.6 %	11.4 %

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

	Three Months Ended September 30,					
	2018			2019		
	<i>(Dollars in thousands)</i>					
Book Sales	\$ 6,089	96.4 %	\$ 6,129	84.1 %		
Estimated Sales Returns & Allowances	(2,472)	(39.1)	(1,958)	(26.9)		
Net Book Sales	3,617	57.3	\$ 4,171	57.2		
E-Book Sales	513	8.1	764	10.5		
Self-Publishing Fees	1,451	23.0	1,533	21.0		
Print Magazine Subscriptions	216	3.4	188	2.6		
Print Magazine Advertisements	186	2.9	194	2.7		
Digital Advertising	110	1.7	108	1.5		
Other Revenue	226	3.6	330	4.5		
Net Publishing Revenue	\$ 6,319	100.0 %	\$ 7,288	100.0 %		

On a consolidated basis, net book sales increased by \$0.5 million, including a \$0.6 million net increase from Regnery® Publishing offset by a \$0.1 million decline from Salem Author Services. Regnery® Publishing book sales reflect a 134% increase in volume with a 21% increase in the average price per unit sold. 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 placement on bestseller lists, which can increase awareness and demand for the book. The decline in book sales from Salem Author Services was due to a reduction in the number of new authors obtained and a decline in the number of books sold.

Sales of e-books through Regnery® Publishing increased by \$0.3 million. 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 placement on bestseller lists, which can increase awareness and demand for the book.

Self-publishing fees increased \$0.1 million due to an increase in the number of authors adding services, such as social media and banner advertising, to promote their publications.

Declines in print magazine subscription revenue reflect lower sales volume from declining consumer demand and distribution levels.

Print magazine advertisements were consistent with the same period of the prior year with no notable changes in volume or rates.

Digital advertising revenue was consistent with the same period of the prior year with no notable changes in volume or rates.

Other revenue includes change fees, video trailers, public-relation services and website revenues. Regnery® Publishing recognized an increase of \$0.1 million in other revenues from royalties. There were no changes in volume or rates as compared to the same period of the prior year.

Broadcast Operating Expenses

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Broadcast Operating Expenses	\$ 37,158	\$ 37,310	\$ 152	0.4 %	56.7 %	58.2 %
Same Station Broadcast Operating Expenses	\$ 35,177	\$ 35,882	\$ 705	2.0 %		

Broadcast operating expenses increased by \$0.2 million including a \$0.6 million increase in costs associated with Salem Surround, a \$0.1 million increase in FCC filing fees and a \$0.1 million increase in production and programming expenses, that were offset by a \$0.5 million decrease in advertising and a \$0.1 million decrease in acquisition-related expenses.

On a same-station basis, broadcast operating expenses increased by \$0.7 million. This increase reflects these expenses net of the impact of start-up costs associated with acquisitions, station dispositions and format changes.

Digital Media Operating Expenses

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Digital Media Operating Expenses	\$ 8,021	\$ 7,282	\$ (739)	(9.2)%	12.2 %	11.4 %

Digital media operating expense declined by \$0.7 million including a \$0.3 million decrease in costs of sales consistent with lower revenues and the sale of Newport Natural Health, a \$0.1 million decrease in fees for streaming, hosting and software, a \$0.1 million decrease in advertising and promotional expenses and a \$0.1 million decrease in professional services.

Publishing Operating Expenses

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Publishing Operating Expenses	\$ 6,210	\$ 6,517	\$ 307	4.9 %	9.5 %	10.2 %

Publishing operating expenses increased by \$0.3 million of which \$0.3 million was due to an increase in the consolidated cost of goods sold associated with the higher sales volume from Regnery® Publishing. The gross profit margin for Regnery® Publishing decreased to 60% for the three months ended September 30, 2019 compared to 64% for the same period of the prior year. 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 70% for the three months ended September 30, 2019, as compared to 68% for the same period of the prior year due to lower costs of sales. Additionally, there was a \$0.3 million increase in commissions which was offset by a \$0.1 million decline in travel and entertainment-related expenses and a \$0.1 million decline in advertising and promotion expenses.

Unallocated Corporate Expenses

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Unallocated Corporate Expenses	\$ 3,987	\$ 4,183	\$ 196	4.9 %	6.1 %	6.5 %

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 increase of \$0.2 million includes higher health care costs and professional services such as accounting and public reporting costs.

Depreciation Expense

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Depreciation Expense	\$ 3,032	\$ 2,744	\$ (288)	(9.5)%	4.6 %	4.3 %

Depreciation expense declined by \$0.3 million compared to the same period of the prior year due to the depreciation expense recognized in 2018 on data processing equipment and computer software that were fully depreciated by the end of 2018. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Amortization Expense	\$ 1,604	\$ 1,147	\$ (457)	(28.5)%	2.4%	1.8%

Amortization expense declined by \$0.5 million on a consolidated basis due to a \$0.5 million decrease in the current period for domain names, customer lists and contracts and subscriber base lists that were fully amortized at or near the beginning of the 2019 calendar year that were included in the prior year amortization expense that were offset by amortization of \$0.1 million for intangible assets acquired with Childrens-Ministry-Deals.com in July 2018 and Hilary Kramer in August 2018. 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

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ —	\$ (40)	\$ (40)	(100.0)%	—%	(0.1)%

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 5 of our Condensed Consolidated Financial Statements for a detailed analysis of the changes in our assumptions and the impact for each contingency.

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

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

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Indefinite-Lived Long-Term Assets Other Than Goodwill	\$ —	\$ 1,915	\$ 1,915	100.0%	—%	3.0%

We performed an interim review of certain broadcast licenses in September 2019 based on market revenues that were trending below the forecasted amounts used in our 2018 year-end valuations. We recorded an impairment charge of \$1.9 million in our Louisville, Philadelphia, Portland and San Francisco markets.

Net (Gain) Loss on the Disposition of Assets

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net (Gain) Loss on the Disposition of assets	\$ (759)	\$ 17,545	\$ 18,304	(2,411.6)%	(1.2)%	27.4%

The net loss on the disposition of assets of \$17.5 million for the three month period ended September 30, 2019 which includes a \$9.9 million estimated pre-tax loss for the pending sale of radio stations WAFS-AM in Atlanta, Georgia, WWDJ-AM in Boston, Massachusetts, WHKZ-AM in Cleveland, Ohio, KEXB-AM (formerly KTNO-AM) in Dallas, Texas, KDMT-AM in Denver, Colorado, KTEK-AM in Houston, Texas, KRDY-AM in San Antonio, Texas and KXFN-AM and WSDZ-AM in St. Louis, Missouri, the \$4.7 million pre-tax loss from the sale of radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida, a \$1.6 million pre-tax loss from the sale of radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida and a \$1.3 million pre-tax loss on the exchange of radio station KKOL-AM in Seattle, Washington for KPAM-AM in Portland, Oregon.

The net gain on the disposition of assets of \$0.8 million for the three months period ended September 30, 2018, reflects the impact of the sale of radio station KGBI-FM in Omaha, Nebraska that was adjusted as of the closing date based on the actual assets sold and a reduction in liabilities associated with the radio station and various other fixed asset disposals.

Other Income (Expense)

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Interest Income	\$ 2	\$ —	\$ (2)	(100.0)%	—%	—%
Interest Expense	(4,507)	(4,410)	97	(2.2)%	(6.9)%	(6.9)%
Net Miscellaneous Income and (Expenses)	1	—	(1)	(100.0)%	—%	—%

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

Interest expense includes interest due on outstanding debt balances, and non-cash accretion associated with deferred installments and contingent earn-out consideration from certain acquisitions. The decrease of \$0.1 million reflects the impact of the lower outstanding balance on the Notes, the outstanding balances on the ABL, and finance lease obligations outstanding during the period ended September 30, 2019. 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 LIBOR rate scheduled to be discontinued at the end of calendar year 2021 would result in all outstanding borrowings subject to the higher base rate borrowing. We expect to amend the ABL prior to the LIBOR phaseout based on the ABL maturity date of May 19, 2022.

Net miscellaneous income and expenses includes miscellaneous receipts including usage fees for real estate properties and other miscellaneous expenses.

Provision for (Benefit from) Income Taxes

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Provision for (Benefit from) Income Taxes	\$ 564	\$ 1,108	\$ 544	96.5%	0.9%	1.7%

Our provision for income taxes increased \$0.5 million to \$1.1 million for the three months ended September 30, 2019 compared to \$0.6 million for the same period of the prior year. As a result of our adjusted cumulative three-year pre-tax book loss as of September 30, 2019, we performed a review of our valuation allowance. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was (5.9)% for the three months ended September 30, 2019 compared to 31.8% 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. The effective tax rate of (5.9)% includes a federal income tax benefit generated from operations of \$3.9 million, a state income tax benefit generated from operations of \$0.4 million and an additional valuation allowance of \$4.6 million for federal and \$0.8 million for state. The state income tax provision is an accumulation of applicable state income taxes calculated in accordance with each state's tax laws and each state's pre-tax income that ranges from various losses to income levels.

Net Income (Loss)

	Three Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Net Income (Loss)	\$ 1,207	\$ (20,005)	\$ (21,212)	(1,757.4)%	1.8%	(31.2)%

Net loss increased by \$21.2 million to \$20.0 million for the three months ended September 30, 2019 compared to net income of \$1.2 million during the same period of the prior year as described above.

Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

The following factors affected our results of operations and cash flows for the nine months ended September 30, 2018 as compared to the same period of the prior year:

Financing

Based on the then existing market conditions, we completed repurchases of \$6.7 million in principal of the Notes at amounts less than face value as shown below during the nine months ended September 30, 2019 as compared to repurchases of \$16.4 million in principal during the nine months ended September 30, 2018:

Date	Principal Repurchased	Cash Paid	% of Face Value	Bond Issue Costs	Net Gain
March 28, 2019	\$ 2,000	\$ 1,830	91.50 %	\$ 37	\$ 134
March 28, 2019	2,300	2,125	92.38 %	42	133
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
	<u>\$ 6,670</u>	<u>\$ 6,123</u>		<u>\$ 122</u>	<u>\$ 426</u>

Acquisitions, Divestitures and Other Transactions

- On September 27, 2019, we closed on the exchange of radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. No cash was exchanged for the assets. We recognized a non-cash pre-tax loss of \$1.3 million on the exchange based on the estimated fair value of KPAM-AM as compared to the carrying value of KKOL-AM and the closing costs.
- On September 26, 2019, we sold radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida for \$8.2 million in cash. We recognized a pre-tax loss of \$4.7 million, which reflects the sales price as compared to the carrying value of the assets of the radio stations and the closing costs. We received \$0.4 million in cash upon closing and will receive the remaining \$7.8 million in cash upon finalization of the assignment applications with the FCC.
- On September 18, 2019, we sold radio station WDYZ-AM (formerly WORL-AM) in Orlando, Florida for \$0.9 million in cash. We recognized a pre-tax loss of \$1.6 million, which reflects the sales price as compared to the carrying value of the radio station assets and the closing costs.
- On August 15, 2019 we closed on the exchange of FM Translator W276CR, in Bradenton, FL for FM Translator W262CP in Bayonet Point, FL. No cash was exchanged for the assets.
- On July 25, 2019, we acquired the Journeyboxmedia.com website and related assets for \$0.5 million in cash.
- On July 10, 2019 we acquired certain assets including a digital content library from Steelehouse Productions, Inc. for \$0.1 million in cash.
- On June 27, 2019, we sold a portion of land on our transmitter site in Miami, Florida, for \$0.9 million in cash. We recognized a pre-tax gain of \$0.4 million reflecting the sales price as compared to the carrying value of the land.
- On June 6, 2019, we acquired InvestmentHouse.com website and related financial newsletter assets for \$0.6 million in cash.
- On May 14, 2019, we sold radio station WSPZ-AM (previously WWRC-AM) in Washington D.C. for \$0.8 million in cash. The buyer began programming the station on April 12, 2019 under a TBA. We recorded an estimated pre-tax loss of \$3.8 million on March 19, 2019 based on our plan to sell the station and the probability of the sale, which reflects the sales price as compared to the carrying value of the radio station assets and the estimated closing costs. We recorded an additional loss of \$32,000 upon closing based on the actual closing costs incurred.
- On March 21, 2019, we sold Newport Natural Health for \$0.9 million in cash. We recognized a pre-tax gain of \$0.1 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs.
- On March 18, 2019, we acquired the pjmedia.com website for \$0.1 million in cash.
- 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 pre-tax loss of \$0.2 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs.
- On February 27, 2019, we sold HumanEvents.com, for \$0.3 million in cash. We recognized a pre-tax loss of \$0.2 million associated with the sale reflecting the sales price as compared to the carrying value of the assets and the closing costs.

Net Broadcast Revenue

	Nine Months Ended September 30,					
	2018		2019		Change	
	<i>(Dollars in thousands)</i>		Change \$	Change %	% of Total Net Revenue	
Net Broadcast Revenue	\$ 147,425	\$ 142,854	\$ (4,571)	(3.1)%	75.4%	75.5%
Same Station Net Broadcast Revenue	\$ 143,834	\$ 140,872	\$ (2,962)	(2.1)%		

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

	Nine Months Ended September 30,			
	2018		2019	
<i>(Dollars in thousands)</i>				
Block Programming:				
National	\$	37,318	25.3 %	\$ 36,517 25.6 %
Local		24,643	16.7	22,867 16.0
		61,961	42.0	59,384 41.6
Broadcast Advertising:				
National		12,126	8.2	11,956 8.4
Local		41,224	28.0	38,467 26.9
		53,350	36.2	50,423 35.3
Station Digital		6,497	4.4	10,234 7.2
Infomercials		1,464	1.0	1,091 0.8
Network		14,501	9.8	13,923 9.7
Other Revenue		9,652	6.6	7,799 5.5
Net Broadcast Revenue	\$	147,425	100.0 %	\$ 142,854 100.0 %

The net decline in block programming revenue of \$2.6 million reflects a \$1.8 million decline in local programming revenue and a \$0.8 million decline in national programming revenue. The decline in local programming revenue includes \$0.1 million previously generated from stations that we no longer operate (KCRO-AM and KOTK-AM, in Omaha, Nebraska and KHTE-FM, in Little Rock, Arkansas) and the remainder from certain programs discontinuing their ministry efforts and due to what we believe is increased competition from other broadcasters and podcasts. The decrease in national programming revenue includes a \$0.5 million decrease from our Christian Teaching and Talk format radio stations impacted by the October 31, 2018 sale of KCRO-AM in Omaha, Nebraska and a \$0.2 million decrease from our Business format radio stations that are impacted by restrictions on the nature and type of content that can be placed and a \$0.1 million decrease from our Contemporary Christian Music radio station formats.

Total advertising revenue, net of agency commissions, declined by \$2.9 million, which includes a \$1.4 million decrease in political advertising. Excluding political advertising, the \$1.5 million net decline includes a \$2.1 million decline in local advertising offset by a \$0.6 million increase in national advertising revenue. Declines in local advertising net of political, include a \$0.5 million decline from our CCM format radio stations that were largely attributable to lower spot rates charged due to competition from other broadcasters that offer lower rates primarily in the Dallas and Los Angeles markets, a \$0.8 million decline from our News Talk format radio stations, a \$0.2 million decline from our Christian Teaching and Talk format radio stations and a \$0.2 million decrease in our Business News format radio stations. Additionally, \$0.4 million of the decline resulted from the sale of radio station KGBI-FM in Omaha, Nebraska.

Station digital revenue, or local digital revenue generated from our radio stations and networks, increased by \$3.7 million from the growth of digital product offerings through Salem Surround, our national multimedia digital advertising agency launched in 2018 that provides digital marketing services to our customers. We continue to expand our digital product offerings including social media campaigns, search engine optimization, retargeted advertising and other services to increase our market share as advertising dollars shift away from pure broadcast to include digital and digital technologies. 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, net of digital, declined by \$0.6 million from a \$0.6 million decline in network political advertising. Net of the impact of political advertising, network revenue is consistent with that of the same period of the prior year. The unfavorable impact to network revenue from the change in network hosts effective January 1 of this year has now been eliminated.

Other revenue declined by \$1.9 million due to a \$0.9 million decrease in event revenue due to a reduction in the number of events held, a \$0.6 million decrease in listener purchase program revenue due to lower demand from listeners to participate in sales incentives and discounts offered under vendor discount programs, a \$0.3 million decrease in LMA fees associated with radio station WQVN-AM, Miami, Florida, which was sold on August 28, 2018 and a \$0.1 million decrease in talent fees, offset by a \$0.1 million increase in broadcast tower lease 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 decreased \$2.9 million, which reflects these items net of the impact of stations with acquisitions, dispositions and format changes.

Net Digital Media Revenue

	Nine Months Ended September 30,					
	2018		2019		Change	
					Change \$	Change %
					<i>(Dollars in thousands)</i>	
					% of Total Net Revenue	
Net Digital Media Revenue	\$	31,051	\$	29,349	\$ (1,702)	(5.5)%
						15.9% 15.5%

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

	Nine Months Ended September 30,					
	2018		2019			
					<i>(Dollars in thousands)</i>	
Digital Advertising, net	\$	16,159		52.0%	\$	15,136
Digital Streaming		3,316		10.7		2,947
Digital Subscriptions		6,052		19.5		6,076
Digital Downloads		3,722		12.0		4,196
e-commerce		1,533		4.9		468
Other Revenues		269		0.9		526
Net Digital Media Revenue	\$	31,051		100.0%	\$	29,349
						100.0%

Digital advertising revenue, net of agency commissions, or national digital revenue, declined by \$1.0 million on a consolidated basis including a \$1.0 million decline from Salem Web Network and a \$0.1 million net decline from our conservative opinion websites within Townhall Media offset by a \$0.1 million increase from Eagle Financial Publications. The net decline from Townhall Media includes a \$0.3 million increase from our March 2019 acquisition of pjmedia.com offset by \$0.4 million consolidated decline that includes the impact of the February 27, 2019 sale of HumanEvents.com. Declines in national digital is attributable to a loss of advertisers who have moved spending to digital programmatic advertisers, specifically Facebook and Google, and a loss of advertisers who have decided to reduce or eliminate advertising on political content websites such as ours. 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 Condensed Consolidated Financial Statements. Mobile page views carry fewer advertisements and tend to have shorter site visits as compared to desktop. As a result, our growth in mobile page views exceeds our growth in revenue from the mobile applications.

Digital streaming revenue decreased \$0.4 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 was consistent with the same period of the prior year on a consolidated basis. We generated a \$0.8 million increase in revenues from our August 2018 acquisition of Hilary Kramer financial newsletter and a \$0.1 million increase in revenue from our June 2019 acquisition of InvestmentHouse.com. This growth was offset with a \$0.9 million decline in revenue from a reduction in the number of subscribers including a 20% decline in the number of subscribers to Dr. Mark Skousen and a 37% decline in the number of subscribers to James Woods.

Digital download revenue increased by \$0.5 million overall including a \$0.8 million increase from our acquisition of Childrens-Ministry-Deals.com in July 2018 that was offset by a \$0.3 million decrease from our church product websites, WorshipHouseMedia.com and SermonSpice™.com. There were no significant changes in rates as compared to the same period of the prior year.

E-commerce revenue decreased by \$1.1 million due to the sale of Newport Natural Health, an e-commerce website operated by Eagle Wellness in the first quarter of 2019.

Other revenue includes revenue sharing arrangements for mobile applications and mail list rentals. We recognized revenue of \$0.2 million related to transfer services provided to the buyer of Newport Natural Health. There were no changes in volume or rates as compared to the same period of the prior year.

Net Publishing Revenue

	Nine Months Ended September 30,					
	2018		2019		Change	
					Change \$	Change %
					<i>(Dollars in thousands)</i>	
					% of Total Net Revenue	
Net Publishing Revenue	\$	17,119	\$	17,062	\$ (57)	(0.3)%
						8.8% 9.0%

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

	Nine Months Ended September 30,			
	2018		2019	
	<i>(Dollars in thousands)</i>			
Book Sales	\$ 13,693	80.0 %	\$ 13,638	79.9 %
Estimated Sales Returns & Allowances	(4,020)	(23.5)	(4,296)	(25.2)
Net Book Sales	9,673	56.5	9,342	54.7
E-Book Sales	1,155	6.7	1,232	7.2
Self-Publishing Fees	4,231	24.7	4,258	25.0
Print Magazine Subscriptions	699	4.1	581	3.4
Print Magazine Advertisements	454	2.7	474	2.8
Digital Advertising	346	2.0	290	1.7
Other Revenue	561	3.3	885	5.2
Net Publishing Revenue	\$ 17,119	100.0 %	\$ 17,062	100.0 %

On a consolidated basis, net book sales declined by \$0.3 million that includes a \$0.4 million decline from Salem Author Services which was offset by a \$0.1 million net increase from Regnery Publishing. Regnery Publishing book sales reflect a 4% increase in the average price per unit sold with a 4% decrease in volume. Sales of books 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 placement on bestseller lists, which can increase awareness and demand for the book. The \$0.3 million decrease in the estimated sales returns and allowances was based on a lower number of sales of Regnery Publishing print books. The \$0.4 million decline in book sales from Salem Author Services was due to a reduction in the number of new authors obtained and the number of books sold with no significant changes in sale prices as compared to the same period of the prior year.

Regnery Publishing e-book sales increased by \$0.1 million due to a 10% increase in sales volume which was partially offset by 11% decrease in the average price per unit sold from sales incentives offered during the period. E-book sales can also vary based on the composite mix of titles released and available in each period. Revenues can vary significantly based on the book release date and the number of titles that achieve placement on bestseller lists, which can increase awareness and demand for the book.

Self-publishing fees remained consistent compared to the same period of the prior year. Self-publishing fees charged to authors were comparable with the same period of the prior year.

Declines in print magazine subscription revenues reflect lower consumer demand and distribution levels which is offset by the stabilization of the print magazine advertisements. There were no significant changes in print magazine advertising revenues.

Declines in digital advertising revenue were primarily due to the discontinuation of the Conservative Book Club website operated by Regnery® Publishing in November 2018 partially offset by increases in digital advertising from the History on the Net website. Sales volume and rates were comparable to the same period of the prior year.

Other revenue includes change fees, video trailers and website revenues. There were no changes in volume or rates as compared to the same period of the prior year. Regnery® Publishing recognized an increase of \$0.3 million in other revenues from royalties.

Broadcast Operating Expenses

	Nine Months Ended September 30,						
	2018		2019		Change \$	Change %	% of Total Net Revenue
	<i>(Dollars in thousands)</i>						
Broadcast Operating Expenses	\$ 110,151	\$ 111,466	\$ 1,315	1.2 %	56.3 %	58.9 %	
Same Station Broadcast Operating Expenses	\$ 105,718	\$ 108,857	\$ 3,139	3.0 %			

Broadcast operating expenses increased by \$1.3 million overall including a \$1.6 million increase in costs associated with Salem Surround. We continue to invest in Salem Surround, our multi-media advertising agency due to growth in revenue and digital product offerings. Broadcast operating expense net of Salem Surround decreased by \$0.3 million overall including a \$0.3 million increase in employee-related expenses from non-cash stock based compensation, a \$0.4 million net increase in lease expense, a \$0.4 million increase in production and programming expenses and a \$0.3 million increase in music license fees, that were offset by a \$1.3 million decrease in advertising expenses, a \$0.3 million decrease in acquisition-related expenses and a \$0.1 million decrease in professional services.

On a same-station basis, broadcast operating expenses increased by \$3.1 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

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>					
	% of Total Net Revenue					
Digital Media Operating Expenses	\$ 24,792	\$ 22,988	\$ (1,804)	7.3 %	12.7 %	12.1 %

The overall decline of \$1.8 million in digital media operating expenses was consistent with lower revenues. Cost of sales decreased by \$0.9 million decrease including the impact of the sale of Newport Natural Health, advertising and promotional expenses decreased \$0.3 million, facility-related expenses decreased \$0.2 million, streaming and hosting fees decreased \$0.1 million and bad debt expenses decreased by \$0.1 million.

Publishing Operating Expenses

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>					
	% of Total Net Revenue					
Publishing Operating Expenses	\$ 17,319	\$ 17,112	\$ (207)	(1.2)%	8.9 %	9.0 %

Publishing operating expenses declined \$0.2 million due to a \$0.3 million increase in cost of goods sold from higher book sales from Regnery® Publishing that was offset with a \$0.2 million decline in cost of goods sold from Salem Author Services due to a lower volume of sales and a \$0.1 million cost of goods sold decline from Salem Publishing. The gross profit margin for Regnery Publishing was 57% for the nine months ended September 30, 2019 as compared to 58% for the same period of the prior year. 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 Salem Author Services was consistent at 68% for the nine months ended September 30, 2019 as compared to 67% for the same period of the prior year due to lower costs of sales. Additionally, there was a \$0.2 million increase in commissions that was offset with a \$0.3 million decline overall in advertising and promotion expenses and a \$0.2 million decline in payroll-related expenses due to reductions in headcount.

Unallocated Corporate Expenses

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>					
	% of Total Net Revenue					
Unallocated Corporate Expenses	\$ 11,938	\$ 12,386	\$ 448	3.8 %	6.1 %	6.5 %

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 increase of \$0.4 million includes a \$0.5 million increase in non-cash stock-based compensation associated with restricted stock awards and a \$0.2 million increase in professional services that was offset by a \$0.2 million decrease in travel and entertainment-related expense and a \$0.1 million decrease in employee-related benefits associated with the cash surrender value of split-dollar life insurance.

Depreciation Expense

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>					
	% of Total Net Revenue					
Depreciation Expense	\$ 9,076	\$ 8,529	\$ (547)	(6.0)%	4.6 %	4.5 %

Depreciation expense declined by \$0.6 million compared to the same period of the prior year due to the depreciation expense recognized in 2018 on data processing equipment and computer software that were fully depreciated by the end of 2018. There were no changes in our depreciation methods or in the estimated useful lives of our asset groups.

Amortization Expense

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>					
	% of Total Net Revenue					
Amortization Expense	\$ 4,558	\$ 3,567	\$ (991)	(21.7)%	2.3 %	1.9 %

Amortization expense declined by \$1.0 million compared to the same period of the prior year. Decreases in amortization expense reflect fully amortized domain names, customer lists and contracts and subscriber base lists that have estimated useful lives of three to five years. These items were fully amortized at or near the beginning of the 2019 calendar year resulting in lower amortization expense for this year. This was offset by acquisitions, including Childrens-Ministry-Deals.com in July 2018 and Hilary Kramer in August 2018. 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

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Change in the Estimated Fair Value of Contingent Earn-Out Consideration	\$ 72	\$ (40)	\$ (112)	(155.6)%	—%	—%

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 5 of our Condensed Consolidated Financial Statements for a detailed analysis of the changes in our assumptions and the impact for each contingency.

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

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

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Impairment of Indefinite-Lived Long Term Assets Other Than Goodwill	\$ —	\$ 1,915	\$ 1,915	100.0%	—%	1.0%

We performed an interim review of certain broadcast licenses in September 2019 based on market revenues that were trending below the forecasted amounts used in our 2018 year-end valuations. We recorded an impairment charge of \$1.9 million in our Louisville, Philadelphia, Portland and San Francisco markets.

Net (Gain) Loss on the Disposition of Assets

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Net (Gain) Loss on the Disposition of Assets	\$ 4,400	\$ 21,212	\$ 16,812	382.1%	2.2%	11.2%

The net loss on the disposition of assets of \$21.2 million for the nine month period ended September 30, 2019 includes a \$9.9 million estimated pre-tax loss for the pending sale of radio stations WAFS-AM in Atlanta, Georgia, WWDJ-AM in Boston, Massachusetts, WHKZ-AM in Cleveland, Ohio, KEXB-AM (formerly KTNO-AM) in Dallas, Texas, KDMT-AM in Denver, Colorado, KTEK-AM in Houston, Texas, KRDY-AM in San Antonio, Texas and KXFN-AM and WSDZ-AM in St. Louis, Missouri, the \$4.7 million pre-tax loss from the sale of radio stations WWMI-AM and WLCC-AM in Tampa, Florida and WZAB-AM and WOCN-AM (formerly WKAT-AM) in Miami, Florida, a \$3.8 million pre-tax loss on the sale of radio station WSPZ-AM in Washington, D.C., a \$1.6 million pre-tax loss from the sale of radio station WXYZ-AM (formerly WORL-AM) in Orlando, Florida, a \$1.3 million pre-tax loss on the exchange of radio station KKOL-AM in Seattle, Washington for KPAM-AM in Portland, Oregon, a \$0.2 million pre-tax loss on the sale Mike Turner's line of investment products and a \$0.2 million pre-tax loss on the sale of HumanEvents.com that was partially offset by a \$0.4 million pre-tax gain on the sale of a portion of land on our transmitter site in Miami, Florida and a \$0.1 million pre-tax gain on the sale of Newport Natural Health.

The net loss on the disposition of assets of \$4.4 million for the nine month period ended September 30, 2018 includes a \$2.4 million pre-tax loss on the sale of radio station KGBI-FM in Omaha, Nebraska, a \$1.6 million estimated pre-tax loss on the pending 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 Muth Valley, 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.

Other Income (Expense)

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>				% of Total Net Revenue	
Interest Income	\$ 4	\$ 1	\$ (3)	(75.0)%	—%	—%
Interest Expense	(13,779)	(13,206)	573	(4.2)%	(7.0)%	(7.0)%
Gain on Early Retirement of Long-Term Debt	234	426	192	82.1%	0.1%	0.2%
Net Miscellaneous Income and (Expenses)	(12)	19	31	(258.3)%	—%	—%

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

Interest expense includes interest due on outstanding debt balances, and non-cash accretion associated with deferred installments and contingent earn-out consideration from certain acquisitions. The decrease of \$0.6 million reflects the outstanding balance of the Notes, the outstanding balance of the ABL and finance lease obligations outstanding during the period ended September 30, 2019. 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 LIBOR rate scheduled to be discontinued at the end of calendar year 2021 would result in all outstanding borrowings subject to the higher base rate borrowing. We expect to amend the ABL prior to the LIBOR phaseout based on the ABL maturity date of May 19, 2022.

The gain on the early retirement of long-term debt reflects \$6.7 million of repurchases of the Notes at prices below face value resulting in a pre-tax gain of \$0.4 million for the nine month period ended September 30, 2019, compared to \$0.2 million for the same period of the prior year.

Net miscellaneous income and expenses includes miscellaneous receipts such as usage fees for real estate properties and miscellaneous expenses. During the period ended September 30, 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 claims made as a result of hurricane Irma in the Tampa, Florida market.

Provision for (Benefit from) Income Taxes

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Provision for (Benefit from) Income Taxes	\$ (132)	\$ 697	\$ 829	(628.0)%	(0.1)%	0.4 %

We recognized a tax provision of \$0.7 million for the nine months ended September 30, 2019 compared to a tax benefit of \$0.1 million for the same period of the prior year. As a result of our adjusted cumulative three-year pre-tax book loss as of September 30, 2019, we performed a review of our valuation allowance. The provision for (benefit from) income taxes as a percentage of income before income taxes, or the effective tax rate was (3.1)% for the nine months ended September 30, 2019 compared to 50.0% 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. For the nine months ended September 30, 2019 the effective tax rate includes a federal income tax benefit generated from operations of \$4.1 million, a state income tax benefit generated from operations of \$0.6 million and an additional valuation allowance of \$4.6 million for federal and \$0.8 million for state. The state income tax provision is an accumulation of applicable state income taxes calculated in accordance with each state's tax laws and each state's pre-tax income that ranges from various losses to income levels.

Net Income (Loss)

	Nine Months Ended September 30,					
	2018	2019	Change \$	Change %	2018	2019
	<i>(Dollars in thousands)</i>			% of Total Net Revenue		
Net Income (Loss)	\$ (132)	\$ (23,327)	\$ (23,195)	(17,572.0)%	(0.1)%	(12.3)%

Net loss increased by \$23.2 million to \$23.3 million for the nine months ended September 30, 2019 compared to \$0.1 million during the same period of the prior year as described above.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Significant areas for which management uses estimates include:

- 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;
- assessment of contract-based factors, asset-based factors, entity-based factors and market-based factors to determine the lease term impacting Right-Of-Use (“ROU”) assets and lease liabilities,
- determining the Incremental Borrowing Rate (“IBR”) for calculating ROU assets and lease liabilities
- income tax valuation allowances; and
- uncertain tax positions

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

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

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 assess 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.

We 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.

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 63% of our total assets at September 30, 2019 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 15 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 decline 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.

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 qualify as business acquisitions and instead

are 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 include inputs that are Level 3 measurement as discussed in Note 15 in the notes of our Condensed Consolidated Financial Statements contained in Part 1 in this quarterly report on Form 10-Q.

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 period ending September 30, 2019, we recorded a net decrease of \$40,000 in the estimated fair value of the contingent earn-out consideration that is reflected in our results of operations for this period. 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 Condensed Consolidated Financial Statements contained in Part 1 of this quarterly report on Form 10-Q.

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 hierarchical 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 15 in the notes to our Condensed Consolidated Financial Statements contained in Part 1 of this quarterly report on Form 10-Q.

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 17, Commitments and Contingencies, contained in our Condensed Consolidated Financial Statements.

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

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

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

Reserves for Royalty Advances

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

Fair Value of Equity Awards

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

Partial Self-Insurance on Employee Health Plan

We provide health insurance benefits to eligible employees under a self-insured plan whereby we pay actual medical claims subject to certain stop loss limits. We record self-insurance liabilities based on actual claims filed and an estimate of those claims incurred but not reported. Our estimates are based on historical data and probabilities. Any projection of losses concerning our liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors such as future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should the actual amount of claims increase or decrease beyond what was anticipated, we may adjust our future reserves. Our self-insurance liability was \$0.7 million and \$0.8 million at September 30, 2019 and December 31, 2018, respectively. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates.

Leases

We adopted Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“ASC 842”) issued under ASU 2016-02 on January 1, 2019. Under ASC 842, we consider all relevant facts and circumstances, to determine whether a contract is or contains a lease at inception. Our analysis includes whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This consideration involves judgment with respect to whether we have the right to obtain substantially all of the economic benefits from the use of the identified asset and whether we have the right to direct the use of the identified asset.

Lease Term – Impact on Right-of-Use Assets and Lease Liabilities

The lease term can materially impact the value of the Right-of-Use (“ROU”) assets and lease liabilities recorded on our balance sheet as required under ASC 842. We calculate the term for each lease agreement to include the noncancellable period specified in the agreement together with (1) the periods covered by options to extend the lease if we are reasonably certain to exercise that option, (2) periods covered by an option to terminate if we are reasonably certain not to exercise that option and (3) period covered by an option to extend (or not terminate) if controlled by the lessor. The assessment of whether we are reasonably certain to exercise an option to extend a lease requires significant judgement surrounding contract-based factors, asset-based factors, entity-based factors and market-based factors. These factors, detailed below, are evaluated based on the facts and circumstances at the time we enter a lease agreement.

Contract-Based Factors:

- The existence of a bargain renewal option
- The existence of contingent or variable payments
- The nature and terms of renewal or termination options
- The costs the lessee would incur to restore the asset before returning it to the lessor

Asset-Based Factors:

- The existence of significant lessee-installed leasehold improvements that would still have economic value when the option becomes exercisable
- The physical location of the asset
- The costs that would be incurred to replace or find an alternative asset

Entity-Based Factors:

- Historical practice
- Management's intent
- Common industry practice
- The financial impact on the entity of extending or terminating the lease
- The importance of the leased asset to the entity's operations

Market-Based Factors:

- Market rental or purchase rates for comparable assets
- Potential implications of local regulations and statutory requirements

We have not modified our estimate methodology since adopting ASC 842 on January 1, 2019.

Incremental Borrowing Rate

The ROU asset and related lease liabilities recorded under ASC 842 are calculated based on the present value of the lease payments using (1) the rate implicit in the lease or (2) the lessee's Incremental Borrowing Rate ("IBR"). IBR is defined as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

We performed an analysis as of January 1, 2019 to estimate the IBR applicable to Salem upon transition to ASC 842. Our analysis required the use of significant judgement and estimates, including the estimated value of the underlying leased asset, and the following available evidence:

The credit history of Salem Media Group

Our most recent credit facility consisted of 6.75% Senior Secured Notes and an ABL revolver. As of each month end, the weighted average interest rate on outstanding debt was calculated. The weighted average interest rate on the outstanding debt ranged from a low of 2.97% for the ABL to a high of 6.75% for the Notes. On a combined basis, the weighted average interest rate for the ABL and the Notes ranged from 99 to 257 basis points above prime.

Based on market conditions and prevailing interest rates in 2018 that were higher than our Notes, we completed various open-market repurchases of the Notes at prices below face value. At December 31, 2018, the Notes were trading at 91.5% of the face value.

The credit worthiness of Salem Media Group

At January 1, 2019, our Moody's rating was "B2," consistent with the last ten years. A B2 credit rating is considered speculative in nature and subject to high credit risk.

Class of the underlying asset and the remaining term of the arrangement

We elected to use a portfolio approach applying a single IBR to leases with reasonably similar characteristics, including the remaining lease term, the underlying assets and the economic environment. As of the date of adoption, we grouped each lease according to the nature of leased asset and further grouped the items by the remaining lease term as of the date of adoption. We have six main categories of leases, (1) Buildings, (2) Equipment, (3) Land, (4) Other (Parking Facilities), (5) Towers and (6) Vehicles.

We considered vehicles to have a higher risk for collateral that is mitigated by the shorter term of the lease that would typically range from three to five years. We considered building and towers to have a higher risk based on (1) the longer lease term of up to thirty years and (2) a higher outstanding balance that is mitigated by the lower risk that the collateralized asset would lose significant value.

The debt incurred under the lease liability as compared to amounts that would be borrowed

We reviewed the cost to finance comparable amounts under our ABL and based on the current market environment as derived from available economic data.

We referred to the Bloomberg Single B Rated Communications Yield Curve (unsecured) and considered adjustments for industry risk factors and the estimated value of the underlying leased asset to be collateral for the debt incurred.

From this analysis, we developed a matrix to estimate the IBR for each major category of leases. We will review our IBR estimates on a quarterly basis and update as necessary. We have not modified our estimate methodology since adopting ASC 842 on January 1, 2019.

Income Tax Valuation Allowances (Deferred Taxes)

In preparing our condensed consolidated financial statements, we estimate our income tax liability in each of the jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. Our judgments, assumptions and estimates relative to the current provision for income tax consider 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.

As a result of our adjusted cumulative three-year pre-tax book loss as of September 30, 2019, we performed a review of our valuation allowance. We recorded an increase to the valuation allowance of \$5.4 million, for a total valuation allowance of \$10.8 million.

Income Taxes and Uncertain Tax Positions

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

We review and reevaluate uncertain tax positions on a quarterly basis. Changes in assumptions may result in the recognition of a tax benefit or an additional charge to the tax provision. During the three months ended September 30, 2019, we did not recognize liabilities associated with uncertain tax positions. Accordingly, we have no liabilities for uncertain tax positions recorded at September 30, 2019. 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 10, 2017, the City of New York began its audit of Salem's 2013 and 2014 tax filings. We do not anticipate any material or significant results from the audit.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds are operating cash flows, 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 September 30, 2019.

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 decreased to \$7,000 as of September 30, 2019 as compared to \$0.1 million at December 31, 2018. Working capital increased \$4.8 million to \$(4.4 million) at September 30, 2019 compared to \$(9.2 million) at December 31, 2018 due to the recognition of ROU assets of \$9.5 million, the derecognition of prepaid rent of \$1.1 million, an increase in accounts payable and accrued expenses of \$3.6 million and a \$1.6 million decrease in the outstanding balance on the ABL.

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 nine month period ended September 30, 2019 decreased by \$5.7 million to \$14.5 million compared to \$20.2 million during the same period of the prior year. Working capital improved to a \$4.4 million deficit from a \$9.2 million deficit due to the \$7.8 million short-term receivable from station sales that closed on September 26, 2019. The decrease in cash provided by operating activities includes the impact of the following items:

- Total net revenue declined by \$6.3 million,
- Operating expenses exclusive of depreciation, amortization, changes in the estimated fair value of contingent earn-out consideration, impairments and net gain (loss) on the disposition of assets, decreased by \$0.2 million;
- Trade accounts receivables, net of allowances, increased by \$0.4 million compared to an increase of \$2.5 million for the same period of the prior year due to a change in our Regnery Publishing distributor arrangement under which there is a six month hold back on payment pending the processing of returns;
- Unbilled revenue decreased \$0.2 million;
- Our Day's Sales Outstanding, or the average number of days to collect cash from the date of sale, decreased to 64 days at September 30, 2019 compared to 68 days at September 30, 2018;
- Net accounts payable and accrued expenses increased \$3.6 million to \$23.5 million from \$25.0 million as of the prior year; and
- Net inventories on hand decreased \$28,000 to \$0.6 million at September 30, 2019 compared to an increase of \$0.2 million to \$0.9 million for the same period of the prior year.

Investing Cash Flows

Our primary source of investing cash inflows includes proceeds from the sale of assets or businesses. 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, we entered acquisition agreements that contain 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 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 additional capital expenditures of approximately \$1.7 million during the remainder of 2019.

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

Net cash used in investing activities decreased \$5.4 million to \$3.9 million during the nine month period ended September 30, 2019 from \$9.3 million during the same period of the prior year. The decrease in cash used for investing activities was the result of:

- Cash paid for acquisitions decreased \$9.6 million to \$1.3 million compared to \$10.9 million during the same period of the prior year;
- Cash paid for capital expenditures decreased \$0.4 million to \$6.1 million during the nine month period ended September 30, 2019 from \$6.5 million during the same period of the prior year, and
- Receipts from asset sales were \$4.2 million during the nine month period ended September 30, 2019 compared to \$8.5 million during the same period of the prior year;

Financing Cash Flows

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

During the nine month period ended September 30, 2019, the principal balances outstanding under the Notes and ABL Facility ranged from \$244.4 million to \$258.2 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 \$6.9 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 decreased \$0.2 million to \$10.7 million during the nine month period ended September 30, 2019 from \$10.9 million during the same period of the prior year. The decrease in cash used for financing activities includes:

- A \$0.5 million decrease in the book overdraft to \$2.3 million from \$2.8 million of the prior year;
- We used \$6.1 million of cash to repurchase \$6.7 million in face value of the 6.75% Senior Secured Notes compared to \$9.5 million of cash to repurchase \$10.0 million the same period of the prior year; and
- Net borrowings on our ABL Facility were \$1.6 million during the nine months ended September 30, 2019 compared to net proceeds of \$1.2 million during the same period of the prior year.

Salem Media Group, Inc. has no independent assets or operations, the subsidiary guarantees relating to certain debt 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 are secured by a first-priority lien on substantially all 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 (viii) 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 \$15.7 million per year in interest on the Notes. As of September 30, 2019, accrued interest on the Notes was \$5.2 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 three and nine month periods ended September 30, 2019, \$0.2 million and \$0.6 million, respectively, of debt issuance costs associated with the Notes was amortized to interest expense. During the three and nine month periods ended September 30, 2018, \$0.2 million and \$0.7 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
<i>(Dollars in thousands)</i>					
March 28, 2019	\$ 2,000	\$ 1,830	91.50 %	\$ 37	\$ 134
March 28, 2019	2,300	2,125	92.38 %	42	133
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
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
	<u>\$ 23,100</u>	<u>\$ 21,566</u>		<u>\$ 461</u>	<u>\$ 1,074</u>

Asset-Based Revolving Credit Facility

On May 19, 2017, the Company entered into the Asset Based Loan (“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 LIBOR rate scheduled to be discontinued at the end of calendar year 2021 would result in all outstanding borrowings subject to the higher base rate borrowing. We expect to amend the ABL prior to the LIBOR phaseout based on the ABL maturity date of May 19, 2022.

Availability under the ABL is subject to a borrowing base consisting of (a) 85% of the eligible accounts receivable plus (b) a calculated amount based on the value of certain real property. As of September 30, 2019, the amount available under the ABL was \$26.2 million of which \$18.1 million was outstanding. 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”) 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 \$0.8million 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 three and nine month periods ended September 30, 2019, \$50,000 and \$0.2 million, respectively, of debt issue costs associated with the Notes was amortized to interest expense. During the three and nine month periods ended September 30, 2018, \$53,000 and \$0.2 million of debt issue costs associated with the Notes was recognized as interest expense. At September 30, 2019, the blended interest rate on amounts outstanding under the ABL Facility was 4.11%.

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.

Summary of long-term debt obligations

Long-term debt consisted of the following:

	As of December 31, 2018	As of September 30, 2019
	<i>(Dollars in thousands)</i>	
6.75% Senior Secured Notes	\$ 238,570	\$ 231,900
Less unamortized debt issuance costs based on imputed interest rate of 7.08%	(4,540)	(3,809)
6.75% Senior Secured Notes net carrying value	234,030	228,091
Asset-Based Revolving Credit Facility principal outstanding	19,660	18,065
Total long-term debt less unamortized debt issuance costs	253,690	246,156
Less current portion	(19,660)	(18,065)
Long-term debt less unamortized debt issuance costs, net of current portion	\$ 234,030	\$ 228,091

In addition to the outstanding amounts listed above, we also have interest payments related to our long-term debt as follows as of September 30, 2019:

- \$18.1 million under the ABL Facility, with interest spread ranging from Base Rate plus 0.50% to 1.00% for base rate borrowings and LIBOR plus 1.50% to 2.00% for LIBOR rate borrowings;
- \$231.9 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.

Maturities of Long-Term Debt

Principal repayment requirements under all long-term debt agreements outstanding at September 30, 2019 for each of the next five years and thereafter are as follows:

	<u>Amount</u>	
	<i>(Dollars in thousands)</i>	
For the Twelve Months Ended September 30,		
2020	\$	18,065
2021		—
2022		—
2023		—
2024		231,900
Thereafter		—
	<u>\$</u>	<u>249,965</u>

Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets

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

We 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 15.

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.

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

Not required for smaller reporting companies.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

See “Exhibit Index” below.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	File No.	Date of First Filing	Exhibit Number	Filed Herewith
23.1	Consent of Bond & Pecaro, Inc.	—	—	—	—	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. Masvr 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. Masvr Pursuant to 18 U.S.C. Section 1350.	—	—	—	—	X
101	The following financial information from the Quarterly Report on Form 10Q for the three and nine months ended September 30, 2019, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets (ii) Condensed Consolidated Statements of Operations (iii) the Condensed Consolidated Statements of Cash Flows (iv) the Notes to the Condensed Consolidated Financial Statements.	—	—	—	—	X

SIGNATURES

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

November 12, 2019

SALEM MEDIA GROUP, INC.

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

Chief Executive Officer

(Principal Executive Officer)

November 12, 2019

By: /s/ EVAN D. MASYR

Evan D. Masyr

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

EXHIBIT 23.1

[Bond & Pecaro, Inc. letterhead]
Consent of Bond & Pecaro, Inc.

We hereby consent for Salem Media Group, Inc. (the "Company") to use the Bond & Pecaro, Inc. name and data from our work product as of September 30, 2019 in public filings with the Securities and Exchange Commission.

/s/ Bond & Pecaro, Inc.
Bond & Pecaro, Inc.

September 13, 2019
Washington, D.C.

EXHIBIT 31.1

I, Edward G. Atsinger III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Salem Media Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

President and Chief Executive Officer

EXHIBIT 31.2

I, Evan D. Masyr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Salem Media Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ EVAN D. MASYR

Evan D. Masyr

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

- the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2019

By: /s/ EDWARD G. ATSINGER III

Edward G. Atsinger III

President and Chief Executive Officer

EXHIBIT 32.2
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

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

- the Quarterly report of the Company on Form 10-Q for the period ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2019

By: /s/ EVAN D. MASYR

Evan D. Masyr

Executive Vice President and Chief Financial Officer