

SALEM MEDIA GROUP, INC. /DE/

Form 10-K

March 13, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

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

COMMISSION FILE NUMBER 000-26497

SALEM MEDIA GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF	77-0121400 (I.R.S. EMPLOYER
INCORPORATION OR ORGANIZATION) 4880 SANTA ROSA ROAD	IDENTIFICATION NUMBER) 93012
CAMARILLO, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)
REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (805) 987-0400	

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

Title of each class	Name of the Exchange on which registered
Class A Common Stock, \$0.01 par value per share	The NASDAQ Global Market
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes No

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller Reporting Company
Emerging Growth Company

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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CERTAIN DEFINITIONS

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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PART I

ITEM 1. BUSINESS.

Corporate Information

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

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

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

Business Strategy

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

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

Broadcasting

Our foundational business is the ownership and operation of radio stations in large metropolitan markets. To operate our broadcast entities efficiently, we assemble market clusters, or multiple radio stations operating within the same geographic market. Several benefits are achievable when operating market clusters. First, we are able to offer

advertisers and programmers access to multiple audiences by providing airtime on each radio station in that market when advantageous. Second, we realize cost and operating efficiencies by consolidating sales, technical and administrative support, promotional functions and other shared overhead costs, such as facilities and rent, when possible. Third, the addition of new radio stations into existing markets allows us to leverage our hands-on knowledge of that market to increase our appeal to new audiences and advertisers.

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Digital Media

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

Publishing

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

Audience Growth

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

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

Media Strategists

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

Significant Community Involvement

We expect our public image to reflect the lifestyle and viewpoints of the target demographic groups that we serve. We regularly collaborate with organizations that serve Christian, conservative, and family-themed audiences as well as sponsor and support events that are important to this group. We believe that our ongoing

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active involvement and our strong relationships within Christian and conservative communities provide us with a unique competitive advantage that significantly improves the marketability of our media platform to advertisers and programmers targeting such communities. We produce and sponsor a number of local events that we believe are important in building our brand identity. Our sponsored events include listener rallies, speaking tours, pastor appreciation events and concerts such as our *Celebrate Freedom*[®] Music Festivals and *Fishfest*[®] concerts. Local events such as these connect us with our audience and enable us to create an enhanced awareness and name recognition in each of our markets. We believe that this brand awareness creates loyalty with our audience and increases our audience share and ratings over time.

Corporate Structure

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

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

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

Recent Events

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

Debt

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

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

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

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

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

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

Acquisitions

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

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

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

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

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

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

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

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

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

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Divestitures

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

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

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

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

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

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

Other Transactions

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

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

Pending Transactions

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

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

Broadcasting

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

Radio Stations

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

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

Christian Teaching and Talk. We currently program 39 of our radio stations in our foundational format, Christian Teaching and Talk, which is talk programming emphasizing Christian and family themes. Through this format, a listener can hear Bible teachings and sermons, as well as gain insight to questions related to daily life, such as raising children or religious legal rights in education and in the workplace. This format uses block programming time to offer a learning resource and a source of personal support for listeners. Listeners often contact our programmers to ask questions, obtain materials on a subject matter or receive study guides based on what they have learned on the radio.

Block Programming. We recognize revenue from the sale of blocks of airtime to program producers that typically range from 12 $\frac{1}{2}$, 25 or 50-minutes of time. We sell blocks of airtime on our Christian Teaching and Talk format stations to a variety of national and local religious and charitable organizations that we believe create compelling radio programs. National programmers, such as established non-profit religious and educational organizations, typically purchase time on a Monday through Friday basis with supplemental programming blocks available for weekend release. Local programmers, such as community organizations and churches, typically purchase blocks for weekend releases. Historically, more than 95% of these religious and charitable organizations renew their annual programming relationships with us. Based on our historical renewal rates, we believe that block programming provides a steady and consistent source of revenue and cash flows. Our top ten programmers have remained relatively constant and average more than 30 years on-air. Over the last five years, block-programming has generated 41% to 43% of our total net broadcast revenue.

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

News Talk. We currently program 33 of our radio stations in a News Talk format. Our research shows that our News Talk format is highly complementary to our core Christian Teaching and Talk format. As programmed by Salem, both of these formats express conservative views and family values. Our News Talk format allows us to leverage syndicated talk programming produced by Salem Radio Network™ (SRN™) to radio stations throughout the United States. Syndication of our programs allows us to reach audiences in markets in which we do not own or operate radio stations.

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

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

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

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

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

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

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

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

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

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

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

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

We recognize programming revenue as the programs air. For the year ended December 31, 2018, we derived 25.1% and 16.8% of our net broadcast revenue, or \$49.9 million and \$33.3 million, respectively, from the sale of national and local block programming time, respectively. National program revenue is primarily generated from geographically diverse, well-established non-profit religious and educational organizations that purchase time on our stations in a large number of markets in the United States. National program producers typically purchase 12¹/₂, 25 or 50-minute blocks of time on a Monday through Friday basis and may offer supplemental programming for weekend release. We generate local program revenue from

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community organizations and churches that typically purchase blocks for weekend releases and from local speakers who generally purchase daily releases. Our strategy is to identify and assist quality local programs to expand into national syndication.

Salem Radio Network™

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

Salem Media Representatives

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

Salem Surround

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

Digital Media

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

report on Form 10-K.

We own and operate numerous websites including:

Salem Web Network (SWN) Christian Content Websites:

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

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

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

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

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

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

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

[GodUpdates.com](#) provides inspiring stories, thought-provoking articles and videos about topics important to Christians.

[CrossCards .com](#) provides faith-based, inspirational e-greeting cards for all occasions.

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

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

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

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

[CCMmagazine.com](#) provides information and insight on Christian music.

[SingingNews.com](#)[®] provides information on Southern Gospel artists, industry news, concerts, and more.

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

Townhall Media Conservative Opinion Websites:

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

[HotAir .com](#) is a leading news and commentary site with conservative news and opinions.

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

[RedState®.com](#) is the leading conservative, political news blog for right of center activists.

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

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

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Salem Church Products Websites:

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

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

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

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

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

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

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

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

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

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

Digital Financial Websites and Publications

Our digital platform includes the following investing websites and publications:

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

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

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

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

where she practices integrative medicine.

Digital Mobile Applications

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

Daily Bible Devotion

King James Bible

Daily Bible

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Christian Radio

OnePlace

Light Source

¡Citas y Mas Citas!

Bíblia Portuguese Bible

Bibliya Tagalog Bible

Japanese Bible

La Bibbia

La Biblia Reina Valera

Louis Segond French Bible

Luther Bible German

Spanish Bible Reina Valera

Vietnamese Bible

Vulgate Latin Bible

Twitchy®

HotAir™

Townhall®

Red State

Bible Study Tools

Bible Quotes

Bible Trivia

iBelieve

Bible Baseball Trivia

Christian Ecards

One Bible

Bible+1

Biblia*

Publishing

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

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

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

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

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Competition

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

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

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

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

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

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

DIGITAL MEDIA. SWN and Townhall Media compete for visitors and advertisers with other companies that deliver online audio programming, that deliver Christian and conservative digital content, and providers of general market

websites. The online media and distribution business changes quickly and is highly competitive. We compete to attract and maintain interactions with advertisers, consumers, content creators and web publishers. Salem Church Products competes for customers with other online sites that offer resources useful in ministries, preaching, teaching and for employment within the Christian community. Our

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wellness products compete in a large, highly fragmented industry that includes specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, mail-order companies, other online retailers and pharmaceuticals.

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

Federal Regulation of Radio Broadcasting

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

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

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

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

The following table sets forth information with respect to each of our radio stations for which we hold the license. Stations that we operate under an LMA or TBA are not reflected on this table. A broadcast station's market may be different from its community of license. The coverage of an AM radio station is chiefly a function of the power of the

radio station's transmitter, less dissipative power losses and any directional antenna adjustments. For FM radio stations, signal coverage area is chiefly a function of the Effective Radiated Power

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

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

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

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

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

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

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

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

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

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

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

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

FCC rules and policies define the interests of individuals and entities, known as attributable interests, which implicate FCC rules governing ownership of broadcast stations. and other specified mass media entities. Under these rules, attributable interests generally include: (1) officers and directors of a licensee and of its direct and indirect parents; (2) general partners; (3) limited partners and limited liability company members, unless properly insulated from

management activities; (4) a 5% or more direct or indirect voting stock interest in a corporate licensee or parent, except that, for a narrowly defined class of passive investors, the attribution threshold is a 20% or more voting stock interest; and (5) combined equity and debt interests in excess of 33% of a licensee's total asset value, if the interest holder provides over 15% of the licensee station's total weekly programming, or has an attributable same-service (radio or television) broadcast or newspaper interest in the same market (the

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

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

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

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

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

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

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

Proposed Changes: The FCC is required by the Communications Act to review its broadcast ownership rules every four years. In August 2016, the FCC concluded its 2010 and 2014 quadrennial reviews with a decision

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retaining the local radio ownership rules, the radio-television cross-ownership rule and the prohibition on newspaper-broadcast cross-ownership without significant change. In November 2017, however, the FCC adopted an order reconsidering the August 2016 decision and modifying it in several respects. The November 2017 order did not significantly modify the August 2016 decision with respect to the local radio ownership limits but did adopt a presumptive waiver approach for existing parent markets with multiple embedded markets. Significantly, it eliminated the FCC's previous limits on radio-television cross-ownership and newspaper-broadcast cross-ownership. These rule changes became effective on February 7, 2018, but they are subject to a pending appeal.

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

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

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

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

Geographic Financial Information

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

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

Employees

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

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

Available Information

Our Internet address is www.salemma.com. We make available free of charge on our investor relations website under the heading SEC Filings our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports are available as soon as reasonably practical after we electronically file them or furnish them to the SEC. *Any information found on our website is not a part of or incorporated by reference into, this or any other report of the company filed with, or furnished to, the SEC.*

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

Corporate

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

Broadcasting

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

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

We lease certain property from our principal stockholders or trusts and partnerships created for the benefit of the principal stockholders and their families. These leases are described in Note 16 Related Party Transactions in

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the notes to our Consolidated Financial Statements contained in Item 8 of this annual report on Form 10-K. All such leases have cost of living adjustments. Based upon our management's assessment and analysis of local market conditions for comparable properties, we believe such leases have terms that are as favorable as, or more favorable, to the company than those that would have been available from unaffiliated parties.

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

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

Digital Media

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

Publishing

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE AND SAFETY DISCLOSURES.

Not Applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

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

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

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

DIVIDEND POLICY

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

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

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

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

future distributions are likely to be comparable to prior declarations unless there are changes in expected future earnings, cash flows, financial and legal requirements.

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

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

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UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. SELECTED FINANCIAL DATA.

Not required for smaller reporting companies.

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

General

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

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

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

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

Overview

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

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

Our principal sources of broadcast revenue include:

the sale of block program time to national and local program producers;

the sale of advertising time on our radio stations to national and local advertisers;

the sale of banner advertisements on our station websites or on our mobile applications;

the sale of digital streaming advertisements on our station websites or on our mobile applications;

the sale of advertisements included in digital newsletters;

fees earned for the creation of custom web pages and custom digital media campaigns for our advertisers through Salem Surround;

the sale of advertising time on our national network;

the syndication of programming on our national network;

product sales and royalties for on-air host materials, including podcasts and programs; and

other revenue such as events, including ticket sales and sponsorships, listener purchase programs, where revenue is generated from special discounts and incentives offered to our listeners from our advertisers; talent fees for voice-overs or custom endorsements from our on-air personalities and production services, and rental income for studios, towers or office space.

Our principal sources of digital media revenue include:

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

the sale of digital streaming advertisements on websites and mobile applications;

the support and promotion to stream third-party content on our websites;

the sale of advertisements included in digital newsletters;

the digital delivery of newsletters to subscribers;

the number of video and graphic downloads; and

the sale and delivery of wellness products.

Our principal sources of publishing revenue include:

the sale of books and e-books;

publishing fees from authors;

the sale of digital advertising on our magazine websites and digital newsletters;

subscription fees for our print magazine; and

the sale of print magazine advertising.

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

audience share;

how well our programs and advertisements perform for our clients;

the size of the market and audience reached;

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the number of impressions delivered;

the number of advertisements and programs streamed;

the number of page views achieved;

the number of downloads completed;

the number of events held, the number of event sponsorships sold and the attendance at each event;

demand for books and publications;

general economic conditions; and

supply and demand for air-time on a local and national level.

Broadcasting

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

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

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

Nielsen Audio uses the Portable People Meter™ (PPM) technology to collect data for its ratings service. PPM is a small device that is capable of automatically measuring radio, television, Internet, satellite radio and satellite television signals encoded by the broadcaster. The PPM offers a number of advantages over traditional diary ratings

collection systems, including ease of use, more reliable ratings data, shorter time periods between when advertising runs and actual listening data, and little manipulation of data by users. A disadvantage of the PPM includes data fluctuations from changes to the panel (a group of individuals holding PPM devices). This makes all stations susceptible to some inconsistencies in ratings that may or may not accurately reflect the actual number of listeners at any given time.

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

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

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

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

Digital Media

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

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

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

Publishing

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

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

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

Known Trends and Uncertainties

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

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

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

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

Key Financial Performance Indicators Same-Station Definition

In the discussion of our results of operations below, we compare our broadcast operating results between periods on an as-reported basis, which includes the operating results of all radio stations and networks owned or operated at any

time during either period and on a Same Station basis. Same Station is a Non-GAAP financial measure used both in presenting our results to stockholders and the investment community as well as in our internal evaluations and management of the business. We believe that Same Station Operating Income provides a meaningful comparison of period over period performance of our core broadcast operations as this measure excludes the impact of new stations, the impact of stations we no longer own or operate, and the impact of stations operating under a new programming format. Our presentation of Same Station Operating Income is not intended to be considered in

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isolation or as a substitute for the most directly comparable financial measures reported in accordance with GAAP. Our definition of Same Station Operating Income is not necessarily comparable to similarly titled measures reported by other companies. Refer to **NON-GAAP FINANCIAL MEASURES** below for a reconciliation of these non-GAAP performance measures to the most comparable GAAP measures.

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

Non-GAAP Financial Measures

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

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

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

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

We define Same Station net broadcast revenue as net broadcast revenue from our radio stations and networks that we own or operate in the same format on the first and last day of each quarter, as well as the corresponding quarter of the prior year. We define Same Station broadcast operating expenses as broadcast operating expenses from our radio stations and networks that we own or operate in the same format on the first and last day of each

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

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

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

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

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

Reconciliation of Non-GAAP Financial Measures:

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS**Year Ended December 31, 2018 compared to the year ended December 31, 2017**

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

Financing

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

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

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

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Acquisitions, Divestitures and Other Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Broadcast Revenue

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

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

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

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

average rate increase with 95% of our programmers renewing. These increases were partially offset by a \$0.1 million decline in programming from our Business format radio stations that restrict content to ensure compliance with securities rules and regulations and a \$0.2 million decline in programming from all other formats.

Total advertising revenue, net of agency commissions, increased by \$63,000 on a consolidated basis, which includes a \$1.9 million increase in political advertising as compared to the same period of the prior year. Political

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

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

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

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

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

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

Net Digital Media Revenue

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

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

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

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

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

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

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

E-commerce revenue decreased by \$0.1 million as compared to the same period of the prior year. There was a 7% decrease in the number of products sold through our wellness website that was offset by an increase in the average

unit price of 3%. The decrease in the number of products sold was due to a reduction in the discounts offered during the period and a lower volume of new customers as compared to the prior year.

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

Table of Contents**Net Publishing Revenue**

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

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

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

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

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

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

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

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

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

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

Broadcast Operating Expenses

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

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

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

Digital Media Operating Expenses

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

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

Publishing Operating Expenses

Year Ended December 31,

	2017	2018	Change \$	Change %	2017	2018
	<i>(Dollars in thousands)</i>				<i>% of Total Net Revenue</i>	
Publishing Operating Expenses	\$ 24,475	\$ 22,396	\$ (2,079)	(8.5)%	9.3%	8.5%

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

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

Unallocated Corporate Expenses

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

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

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

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

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

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

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

Table of Contents**Depreciation Expense**

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

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

Amortization Expense

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

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

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

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

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

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

Table of Contents**Net (Gain) Loss on the Disposition of Assets**

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

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

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

Other Income (Expense)

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

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

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

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

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

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

Provision for (Benefit from) Income Taxes

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

We recognized a provision for income taxes of \$2.5 million for the year ended December 31, 2018 compared to a tax benefit of \$20.9 million in the same period of the prior year. During the 2018 calendar year, we sold groups of assets constituting various radio station business lines that resulted in a decrease in sales apportioned to various states. As a result of the sale of the various radio station business lines coupled with the implementation of the Tax Cuts and Jobs Act of 2017 (Act), the change in our provision for income taxes of \$23.3 million accounts for the \$20.5 million impact of the above Act during December 31, 2017 and a \$2.8 million impact from the revaluation of the state net operating loss tax attributes as a result of the sale of various group assets along with current year state minimum taxes. A pretax loss of \$0.7 million was recognized for calendar year 2018 compared to pre-tax income of \$3.8 million for calendar year 2017. The provision for income taxes as a percentage of income before income taxes, or the effective tax rate was (343.9)% for the year ended December 31, 2018 compared to (553.0)% for the same period of the prior year. The effective tax rate for each period differs from the federal statutory income rate of 21.0% due to the effect of the sale of business assets in various states, state income taxes, certain expenses that are not deductible for tax purposes, and changes in the valuation allowance from the utilization of certain state net operating loss carryforwards.

Net Income (Loss)

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

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

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates

on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Significant areas for which management uses estimates include:

revenue recognition,

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asset impairments, including broadcasting licenses, goodwill and other indefinite-lived intangible assets;

probabilities associated with the potential for contingent earn-out consideration;

fair value measurements;

contingency reserves;

allowance for doubtful accounts;

sales returns and allowances;

barter transactions;

inventory reserves;

reserves for royalty advances;

fair value of equity awards;

self-insurance reserves;

estimated lives for tangible and intangible assets;

income tax valuation allowances; and

uncertain tax positions.

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

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

Revenue Recognition

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

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

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campaign, including reviewing and approving target audiences, monitoring actual results and making modifications as needed and when we are responsible for delivering campaign results to our customers regardless of the use of a third-party or parties.

Trade and Barter Transactions

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

Broadcast Licenses, Goodwill and Other Indefinite-Lived Intangible Assets

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

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

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

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

- (2) financial performance, such as station operating income, including performance as compared to projected results used in prior estimates of fair value;
- (3) macroeconomic economic conditions, including limitations on accessing capital that could affect the discount rates used in prior estimates of fair value;

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- (4) industry and market considerations such as a declines in market-dependent multiples or metrics, a change in demand, competition, or other economic factors;
- (5) operating cost factors, such as increases in labor, that could have a negative effect on future expected earnings and cash flows;
- (6) legal, regulatory, contractual, political, business, or other factors;
- (7) other relevant entity-specific events such as changes in management or customers; and
- (8) any changes to the carrying amount of the indefinite-lived intangible asset.

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

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

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

Broadcast Licenses Impairment Testing

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

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

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

Next, we review the financial operating results for each market cluster. Radio stations are often sold on the basis of a multiple of projected cash flow, or Station Operating Income (SOI) defined as net broadcast revenue less

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

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

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

The primary assumptions used in the Greenfield Method are:

- (1) gross operating revenue in the station's designated market area;
- (2) normalized market share;
- (3) normalized profit margin;
- (4) duration of the ramp-up period to reach normalized operations, (which was assumed to be three years),
- (5) estimated start-up costs (based on market size);
- (6) ongoing replacement costs of fixed assets and working capital;

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

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

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

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

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

Table of Contents***Goodwill Impairment Testing***

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

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

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

Goodwill Broadcast Markets

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

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

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

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

Goodwill Broadcast Networks

The unit of accounting we use to test goodwill in our radio networks is the entity level, which includes Salem Radio NetworkTM (SRNTM), Today's Christian Music (TCM) and Singing News[®] Radio. The entity level is

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the level reviewed by management and the lowest level for which discrete financial information is available. One of our networks has goodwill associated with it as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

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

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

Goodwill Digital Media

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

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

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

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

Goodwill Publishing

The unit of accounting we use to test goodwill in our publishing segment is the entity level, which includes Regnery® Publishing, Salem Author Services and *Singing News*®. Regnery® Publishing is a book publisher based in Washington DC that operates from a stand-alone facility under one general manager, with operating results and cash flows of reported at the entity level. Salem Author Services operates from a stand-alone facility in Orlando, Florida under one general manager who is responsible for the operating results and cash flows. Singing News® produces and distributes a print magazine. The entity level is the level reviewed by management and the lowest level for which discrete

financial information is available. Two of our publishing entities have goodwill associated with them as of our annual testing period ended December 31, 2018. The enterprise valuation assumes that the subject assets are installed as part of an operating business rather than as a hypothetical start-up.

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

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

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

Other Indefinite-Lived Intangible Assets Impairment Testing

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

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

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

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

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

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

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

When estimating the fair value of our broadcasting licenses and goodwill, we make assumptions regarding revenue growth rates, operating cash flow margins and discount rates. These assumptions require substantial

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judgment, and actual rates and margins may differ materially. We prepared a sensitivity analysis of these assumptions and the hypothetical non-cash impairment charge that would have resulted if our estimates were to change by 100 basis points as of the testing period in the fourth quarter of 2018. The following would be the incremental impact:

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

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

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

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

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

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

Impairment of Long-Lived Assets

We account for property and equipment in accordance with FASB ASC Topic 360-10, *Property, Plant and Equipment*. We periodically review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. In accordance with authoritative guidance

for impairment of long-lived assets, we must estimate the fair value of assets when events or circumstances indicate that they may be impaired. The fair value measurements for our long-lived assets use significant observable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material.

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

Business Acquisitions

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

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

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

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

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

Contingent Earn-Out Consideration

Our acquisitions often include contingent earn-out consideration as part of the purchase price. The fair value of the contingent earn-out consideration is estimated as of the acquisition date based on the present value of the

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

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

Contingency Reserves

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

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

While we believe that the final resolution of any known 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 of our collection efforts have been unsuccessful, including use of a collections agency. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected.

Table of Contents***Sales Returns and Allowances***

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

Inventory Reserves

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

Reserves for Royalty Advances

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

Fair Value of Equity Awards

We account for stock-based compensation under the provisions of FASB ASC Topic 718, *Compensation Stock Compensation*. We record equity awards with stock-based compensation measured at the fair value of the award as of the grant date. We determine the fair value of each award using the Black-Scholes valuation model that requires the input of highly subjective assumptions, including the expected stock price volatility and expected term of the award

granted. The exercise price for each award is equal to or greater than the closing market price of Salem Media Group, Inc. common stock as of the date of the award. We use the straight-line attribution

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method to recognize share-based compensation costs over the expected service period of the award. Upon exercise, cancellation, forfeiture, or expiration of the award, deferred tax assets for awards with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award. We have not modified our estimates or assumptions used in our valuation model. We believe that our estimates and assumptions are reasonable and that our stock based compensation is accurately reflected in our results of operations.

Partial Self-Insurance on Employee Health Plan

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

Income Tax Valuation Allowances (Deferred Taxes)

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

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

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

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

Income Taxes and Uncertain Tax Positions

We are subject to audit and review by various taxing jurisdictions. We may recognize liabilities on our financial statements for positions taken on uncertain tax positions. When tax returns are filed, it is highly certain that some

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

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

Recent Accounting Pronouncements

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

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of funds have been operating cash flow, borrowings under credit facilities and proceeds from the sale of selected assets or businesses. We have historically funded, and will continue to fund, expenditures for operations, administrative expenses, and capital expenditures from these sources. We have historically financed acquisitions through borrowings, including borrowings under credit facilities and, to a lesser extent, from operating cash flow and from proceeds on selected asset dispositions. We expect to fund future acquisitions from cash on hand, borrowings under our credit facilities, operating cash flow and possibly through the sale of income-producing assets or proceeds from debt and equity offerings. We have assessed the current and expected economic outlook and our current and expected needs for funds and we believe that the borrowing capacity under our current credit facilities allows us to meet our ongoing operating requirements, fund capital expenditures and satisfy our debt service requirements for at least the next twelve months, including our working capital deficit at December 31, 2018.

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

Operating Cash Flows

Our largest source of operating cash inflows are receipts from customers in exchange for advertising and programming. Other sources of operating cash inflows include receipts from customers for digital downloads and streaming, book sales, subscriptions, self-publishing fees, ticket sales, sponsorships, and vendor promotions. A

majority of our operating cash outflows consist of payments to employees, such as salaries and benefits, and vendor payments under facility and tower leases, talent agreements, inventory purchases and recurring services

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such as utilities and music license fees. Our operating cash flows are subject to factors such as fluctuations in preferred advertising media and changes in demand caused by shifts in population, station listenership, demographics, and audience tastes. In addition, our operating cash flows may be affected if our customers are unable to pay, delay payment of amounts owed to us, or if we experience reductions in revenue, or increases in costs and expenses.

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

Total net revenue declined by \$1.0 million,

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

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

Unbilled revenue increased \$0.2 million;

Our Days Sales Outstanding, or the average number of days to collect cash from the date of sale, decreased to 60 days at December 31, 2018 compared to 65 days at December 31, 2017;

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

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

Investing Cash Flows

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

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

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

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

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

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

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

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

Financing Cash Flows

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

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

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

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

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

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

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

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

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

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

6.75% Senior Secured Notes

On May 19, 2017, we issued in a private placement the Notes, which are guaranteed on a senior secured basis by our existing subsidiaries (the Subsidiary Guarantors). The Notes bear interest at a rate of 6.75% per year and

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mature on June 1, 2024, unless they are earlier redeemed or repurchased. Interest initially accrued on the Notes from May 19, 2017 and is payable semi-annually, in cash in arrears, on June 1 and December 1 of each year, commencing December 1, 2017.

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

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

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

The Indenture provides for the following events of default (each, an "Event of Default"): (i) default in payment of principal or premium on the Notes at maturity, upon repurchase, acceleration, optional redemption or otherwise; (ii) default for 30 days in payment of interest on the Notes; (iii) the failure by us or certain restricted subsidiaries to comply with other agreements in the Indenture or the Notes, in certain cases subject to notice and lapse of time; (iv) the failure of any guarantee by certain significant Subsidiary Guarantors to be in full force and effect and enforceable in accordance with its terms, subject to notice and lapse of time; (v) certain accelerations (including failure to pay within any grace period) of other indebtedness of ours or any restricted subsidiary if the amount accelerated (or so unpaid) is at least \$15 million; (vi) certain judgments for the payment of money in excess of \$15 million; (vii) certain events of bankruptcy or insolvency with respect to us or any significant subsidiary; and (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 \$15.9 million per year in interest on the Notes. As of December 31, 2018, accrued interest on the Notes was \$1.3 million.

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

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

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

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

Asset-Based Revolving Credit Facility

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

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

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

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

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

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

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

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

Prior Term Loan B and Revolving Credit Facility

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

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

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

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

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

with the Term Loan B was amortized to interest expense.

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

Table of Contents**Summary of long-term debt obligations**

Long-term debt consisted of the following:

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

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

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

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

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

Other Debt

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

Maturities of Long-Term Debt and Capital Lease Obligations

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

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

Table of Contents***Impairment Losses on Goodwill and Indefinite-Lived Intangible Assets***

Under FASB ASC Topic 350 *Intangibles - Goodwill and Other*, indefinite-lived intangibles, including broadcast licenses, goodwill and mastheads are not amortized but instead are tested for impairment at least annually, or more frequently if events or circumstances indicate that there may be an impairment. We perform our annual impairment testing during the fourth quarter of each year, which coincides with our budget and planning process for the upcoming year. Impairment is measured as the excess of the carrying value of the indefinite-lived intangible asset over its fair value. Intangible assets that have finite useful lives continue to be amortized over their useful lives and are measured for impairment if events or circumstances indicate that they may be impaired. Impairment losses are recorded as operating expenses.

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

We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. If actual future results are less favorable than the assumptions and estimates we used, we are subject to future impairment charges, the amount of which may be material. The fair value measurements for our indefinite-lived intangible assets use significant unobservable inputs that reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, as Level 3 inputs discussed in detail in Note 12.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2018 and 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited

purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

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CONTRACTUAL OBLIGATIONS

Not required for smaller reporting companies.

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

Not required for smaller reporting companies.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of

Salem Media Group, Inc.

Camarillo, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

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

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

Basis for Opinions

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

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

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

necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

We have served as the Company's auditor since 2016.

Sherman Oaks, California

March 12, 2019

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

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

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

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

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

	Year Ended December 31,	
	2017	2018
Basic earnings (loss) per share data:		
Basic earnings (loss) per share Class A and Class B common stock	\$ 0.94	\$ (0.12)
Diluted earnings (loss) per share data:		
Diluted earnings (loss) per share Class A and Class B common stock	\$ 0.94	\$ (0.12)
Distributions per share Cla		