SALEM MEDIA GROUP, INC. /DE/
Form 10-Q
November 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 000-26497

SALEM MEDIA GROUP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**77-0121400**
(STATE OR OTHER JURISDICTION OF	**(I.R.S. EMPLOYER**
INCORPORATION OR ORGANIZATION)	**IDENTIFICATION NUMBER)**
4880 SANTA ROSA ROAD	
CAMARILLO, CALIFORNIA	**93012**
(ADDRESS OF PRINCIPAL	**(ZIP CODE)**
EXECUTIVE OFFICES)	

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definition of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

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

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

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

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

Class A	**Outstanding at November 2, 2018**
Common Stock, $0.01 par value per share	**20,632,416 shares**
Class B	**Outstanding at November 2, 2018**

Common Stock, $0.01 par value per share	**5,553,696 shares**

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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.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SALEM MEDIA GROUP, INC.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	December 31, 2017 (Note 1)	**September 30, 2018 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3	**$ 17**
Trade accounts receivable (net of allowances of $11,019 in 2017 and $10,764 in 2018)	32,545	**35,058**
Unbilled revenue	2,298	**2,149**
Other receivables (net of allowances of $227 in 2017 and $163 in 2018)	820	**898**
Inventories (net of reserves of $1,657 in 2017 and $796 in 2018)	730	**891**
Prepaid expenses	6,824	**7,376**
Assets held for sale	3,500	**1,375**
Total current assets	46,720	**47,764**
Land held for sale	1,000	
Notes receivable (net of allowance of $759 in 2017 and $748 in 2018)	53	**217**
Property and equipment (net of accumulated depreciation of $164,720 in 2017 and $167,934 in 2018)	99,480	**96,712**
Broadcast licenses	380,914	**379,182**
Goodwill	26,424	**26,789**
Other indefinite-lived intangible assets	313	**313**
Amortizable intangible assets (net of accumulated amortization of $47,179 in 2017 and $51,545 in 2018)	13,104	**12,899**
Deferred financing costs	550	**397**
Deferred income taxes	1,070	**1,070**
Other assets	3,191	**3,590**
Total assets	$ 572,819	**$ 568,933**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,584	**$ 4,583**
Accrued expenses	9,281	**10,877**
Accrued compensation and related expenses	7,643	**9,556**
Accrued interest	1,445	**5,521**
Contract liabilities	12,763	**12,348**
Deferred rent expense	152	**142**

Income taxes payable	172	**241**
Current portion of long-term debt and capital lease obligations	9,109	**10,228**
Total current liabilities	42,149	**53,496**
Long-term debt and capital lease obligations, less current portion	249,579	**240,182**
Deferred income taxes	34,151	**33,850**
Deferred rent expense, long term	13,644	**13,339**
Contract liabilities, long-term	1,951	**1,553**
Other long-term liabilities	64	**62**
Total liabilities	341,538	**342,482**
Commitments and contingencies (Note 18)		
Stockholders Equity:		
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 September 30, 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 September 30, 2018, respectively	56	**56**
Additional paid-in capital	244,634	**245,040**
Accumulated earnings	20,370	**15,134**
Treasury stock, at cost (2,317,650 shares at December 31, 2017 and September 30, 2018)	(34,006)	**(34,006)**
Total stockholders equity	231,281	**226,451**
Total liabilities and stockholders equity	$ 572,819	**$ 568,933**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, **2018**	Nine Months Ended September 30, 2017	Nine Months Ended September 30, **2018**
Net broadcast revenue	$ 48,424	**$ 48,812**	$ 145,479	**$ 147,425**
Net digital media revenue	10,446	**10,397**	31,998	**31,051**
Net publishing revenue	6,563	**6,319**	19,048	**17,119**
Total net revenue	65,433	**65,528**	196,525	**195,595**
Operating expenses:				
Broadcast operating expenses, exclusive of depreciation and amortization shown below (including $534 and $564 for the three months ended September 30, 2017 and 2018, respectively, and $1,648 and $1,699 for the nine months ended September 30, 2017 and 2018, respectively, paid to related parties)	37,040	**37,158**	108,807	**110,151**
Digital media operating expenses, exclusive of depreciation and amortization shown below	8,169	**8,021**	25,241	**24,792**
Publishing operating expenses, exclusive of depreciation and amortization shown below	6,686	**6,210**	18,705	**17,319**
Unallocated corporate expenses exclusive of depreciation and amortization shown below (including $98 and $41 for the three months ended September 30, 2017 and 2018, respectively, and $237 and $198 for the nine months ended September 30, 2017 and 2018, respectively, paid to related parties)	4,233	**3,987**	13,183	**11,938**
Depreciation	3,082	**3,032**	9,171	**9,076**
Amortization	1,135	**1,604**	3,420	**4,558**
Change in the estimated fair value of contingent earn-out consideration	(12)		(54)	**72**
Impairment of indefinite-lived long-term assets other than goodwill			19	
Net (gain) loss on the disposition of assets	95	**(759)**	(410)	**4,400**
Total operating expenses	60,428	**59,253**	178,082	**182,306**

Operating income	5,005	**6,275**	18,443	**13,289**
Other income (expense):				
Interest income	1	**2**	3	**4**
Interest expense	(4,802)	**(4,507)**	(12,156)	**(13,779)**
Change in the fair value of interest rate swap			357	
Gain (loss) on early retirement of long-term debt			(2,775)	**234**
Net miscellaneous income and (expenses)	(80)	**1**	(80)	**(12)**
Net income (loss) before income taxes	124	**1,771**	3,792	**(264)**
Provision for (benefit from) income taxes	170	**564**	1,506	**(132)**
Net income (loss)	$ (46)	**$ 1,207**	$ 2,286	**$ (132)**
Basic earnings (loss) per share data:				
Basic earnings (loss) per share	$	**$ 0.05**	$ 0.09	**$ (0.01)**
Diluted earnings (loss) per share data:				
Diluted earnings (loss) per share	$	**$ 0.05**	$ 0.09	**$ (0.01)**
Distributions per share	$ 0.07	**$ 0.07**	$ 0.20	**$ 0.20**
Basic weighted average shares outstanding	26,144,796	**26,183,910**	26,036,333	**26,177,565**
Diluted weighted average shares outstanding	26,144,796	**26,312,194**	26,454,923	**26,177,565**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2018
OPERATING ACTIVITIES		
Net income (loss)	$ 2,286	**$ (132)**
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash stock-based compensation	1,693	**363**
Depreciation and amortization	12,591	**13,634**
Amortization of deferred financing costs	645	**855**
Accretion of financing items	74	
Accretion of acquisition-related deferred payments and contingent consideration	32	**24**
Provision for bad debts	1,548	**1,498**
Deferred income taxes	1,409	**(301)**
Change in the fair value of interest rate swap	(357)	
Change in the estimated fair value of contingent earn-out consideration	(54)	**72**
Impairment of indefinite-lived long-term assets other than goodwill	19	
(Gain) loss on early retirement of long-term debt	2,775	**(234)**
(Gain) loss on the disposition of assets	(410)	**4,400**
Changes in operating assets and liabilities:		
Accounts receivable and unbilled revenue	(463)	**(3,829)**
Inventories	(139)	**(161)**
Prepaid expenses and other current assets	(1,001)	**(560)**
Accounts payable and accrued expenses	5,152	**7,224**
Deferred rent expense	(3)	**(304)**
Contract liabilities	(577)	**(2,380)**
Other liabilities	(3)	**(40)**
Income taxes payable	(49)	**69**
Net cash provided by operating activities	25,168	**20,198**
INVESTING ACTIVITIES		
Cash paid for capital expenditures net of tenant improvement allowances	(6,800)	**(6,513)**
Capital expenditures reimbursable under tenant improvement allowances and trade agreements	(50)	**(77)**
Escrow deposits paid related to acquisitions	(30)	
Purchases of broadcast assets and radio stations	(1,662)	**(6,534)**
Purchases of digital media businesses and assets	(1,690)	**(4,320)**
Proceeds from sale of assets	602	**8,518**

Other	(224)	**(398)**
Net cash used in investing activities	(9,854)	**(9,324)**
FINANCING ACTIVITIES		
Payments under Term Loan B	(263,000)	
Payments to repurchase 6.75% Senior Secured Notes		**(9,550)**
Proceeds from borrowings under Revolver and ABL Facility	60,133	**111,337**
Payments on Revolver and ABL Facility	(53,980)	**(110,137)**
Payment of interest rate swap	(783)	
Proceeds from bond offering	255,000	
Payment of debt issuance costs	(6,837)	**(11)**
Payments of acquisition-related contingent earn-out consideration	(14)	**(140)**
Payments of deferred installments due from acquisition activity	(225)	
Proceeds from the exercise of stock options	501	**43**
Payments of capital lease obligations	(93)	**(73)**
Payment of cash distribution on common stock	(5,089)	**(5,104)**
Book overdraft	(1,053)	**2,775**
Net cash used in financing activities	(15,440)	**(10,860)**
Net increase (decreased) in cash and cash equivalents	(126)	**14**
Cash and cash equivalents at beginning of year	130	**3**
Cash and cash equivalents at end of period	$ 4	**$ 17**

See accompanying notes

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SALEM MEDIA GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Dollars in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2017	**2018**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Cash paid for interest, net of capitalized interest	$ 4,962	$ **8,794**
Cash paid for income taxes, net of refunds	$ 128	$ **99**
Other supplemental disclosures of cash flow information:		
Barter revenue	$ 4,152	$ **5,018**
Barter expense	$ 4,012	$ **4,223**
Non-cash investing and financing activities:		
Capital expenditures reimbursable under tenant improvement allowances	$ 50	$ **77**
Net assets acquired and liabilities assumed in a non-cash acquisition	$ 2,852	$
Deferred payments on acquisitions	$	$ **326**
Assets acquired under capital lease	$ 16	$ **56**
Non-cash capital expenditures for property & equipment acquired under trade agreements	$	$ **90**
Debt issuance costs accrued	$ 132	$

See accompanying notes

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SALEM MEDIA GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Information with respect to the three and nine months ended September 30, 2018 and 2017 is unaudited. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position, results of operations and cash flows of the company. The unaudited interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report for Salem filed on Form 10-K for the year ended December 31, 2017. Our results are subject to seasonal fluctuations. Therefore, the results of operations for the interim periods presented are not necessarily indicative of the results of operations for the full year.

The balance sheet at December 31, 2017 included in this report has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP.

Description of Business

Salem is a domestic multimedia company specializing in Christian and conservative content. Our media properties include radio broadcasting, digital media, and publishing entities. We have three operating segments: (1) Broadcast, (2) Digital Media, and (3) Publishing, which are discussed in Note 19 Segment Data. Our foundational business is radio broadcasting, which includes the ownership and operation of radio stations in large metropolitan markets. We also own and operate Salem Radio Network™ (SRN), SRN News Network™ (SNN), Today s Christian Music™ (TCM), Singing News Radio™ and Salem Media Representatives™ (SMR). SRN, SNN, TCM and Singing News Radio are networks that develop, produce and syndicate a broad range of programming specifically targeted to Christian and family-themed talk stations, music stations and general News Talk stations throughout the United States, including Salem-owned and operated stations. SMR, a national advertising sales firm with offices in ten U.S. cities, specializes in placing national advertising on religious and other format commercial radio stations. Each of our radio stations has a website specifically designed for that station from which our audience can access our entire library of digital content and online publications.

Our digital media based businesses provide Christian, conservative, investing and health-themed content, e-commerce, audio and video streaming, and other resources digitally through the web. Salem Web Network (SWN) websites include Christian content websites BibleStudyTools.com , Crosswalk.com®, GodVine.com , iBelieve.com, GodTube.com , OnePlace.com , Christianity.com , GodUpdates.com™, CrossCards.com , ChristianHeadlines.com™, LightSource.com , AllCreated.com™, ChristianRadio.com , CCMmagazine.com , SingingNews.com and SouthernGospel.com and our conservative opinion website, collectively known as Townhall Media™, include

Townhall.com®, HotAir.com™, Twitchy.com™, RedState.com™, BearingArms.com™, HumanEvents.com™, and ConservativeRadio.com™. We also publish digital newsletters through Eagle Financial Publications™, which provide market analysis and non-individualized investment strategies from financial commentators on a subscription basis.

Our church e-commerce websites, including SermonSearch.com, ChurchStaffing.com™, WorshipHouseMedia.com™, SermonSpice.com™, WorshipHouseKids.com™, Preaching.com™, ChristianJobs.com™, Youthworker.com™ and Childrens-Ministry-Deals.com, offer a variety of digital resources including videos, song tracks, sermon archives, job listings and Sunday school curriculum to pastors and Church leaders. E-commerce also includes wellness products through Newport Natural Health™, which is a seller of nutritional supplements.

Our web content is accessible through all of our radio station websites that feature content of interest to local audiences throughout the United States.

Our publishing operating segment includes three businesses: (1) Regnery Publishing™, a traditional book publisher that has published dozens of bestselling books by leading conservative authors and personalities, including David Limbaugh, Sebastian Gorka, Ed Klein, Mark Steyn and Second Lady Karen Pence; (2) Salem Author Services, a self-publishing service for authors through Xulon Press, Mill City Press and Bookprinting.com; and (3) *Singing News*® a print magazine.

Variable Interest Entities

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

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

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

The requirements of FASB ASC Topic 810 may apply to entities under LMAs or TBAs, depending on the facts and circumstances related to each transaction. As of September 30, 2018, we did not have implicit or explicit arrangements that required consolidation under the guidance in FASB ASC Topic 810.

Use of Estimates

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

Significant areas for which management uses estimates include:

- revenue recognition,
- asset impairments, including goodwill, broadcasting licenses, other indefinite-lived intangible assets, and assets held for sale;
- probabilities associated with the potential for contingent earn-out consideration;
- fair value measurements;

- contingency reserves;
- allowance for doubtful accounts;
- sales returns and allowances;
- barter transactions;
- inventory reserves;
- reserves for royalty advances;
- fair value of equity awards;
- self-insurance reserves;
- estimated lives for tangible and intangible assets;
- income tax valuation allowances; and
- uncertain tax positions.

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These include reclassifications of contract liabilities associated with the adoption of new revenue recognition guidance as of January 1, 2018.

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Significant Accounting Policies

Except for our accounting policies for revenue recognition, deferred revenue, and deferred commissions that were updated as a result of adopting ASC Topic 606, there have been no changes to our significant accounting policies described in Note 1 to our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 15, 2018, that have had a material impact on our Consolidated Financial Statements and related notes.

Revenue Recognition

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

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

Identification of the contract, or contracts, with a customer

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

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

Identification of the performance obligations in the contract

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

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

Determination of the transaction price

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

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

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

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

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

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Principal versus Agent Considerations

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

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

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

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

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

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

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

Trade Accounts Receivable and Contract Assets

Trade accounts receivable, net of allowances: Trade accounts receivable includes amounts billed and due from our customers stated at their net estimated realizable value. Payments are generally due within 30 days of the invoice date. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is based on our historical collection experience, the age of the receivables, specific customer information and current economic conditions. Past due balances are generally not written-off until all collection efforts have been exhausted, including use of a collections agency. A considerable amount of judgment is required in assessing the likelihood of ultimate realization of these receivables, including the current creditworthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not modified our estimate methodology and we have not historically recognized significant losses from changes in our estimates. We believe that our estimates and assumptions are reasonable and that our reserves are accurately reflected. We do not include extended payment terms in our contracts with customers.

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

Contract Assets - Costs to Obtain a Contract: We capitalize commissions paid to sales personnel in our self-publishing business when customer contracts are signed and advance payment is received. These capitalized costs are recorded as prepaid commission expense in the Condensed Consolidated Balance Sheets. The amount capitalized is incremental to the contract and would not have been incurred absent the execution of the customer contract. Commissions paid upon the initial acquisition of a contract are expensed at the point in time that related revenue is recognized. Prepaid commission expenses are periodically reviewed for impairment. At September 30, 2018, our prepaid commission expense was $0.7 million.

Contract Liabilities

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

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

	Short Term	Long-Term
	(Dollars in thousands)	
Balance, beginning of period January 1, 2018	$ 12,763	$ 1,951
Revenue recognized during the period that was included in the beginning balance of contract liabilities	(6,864)	
Additional amounts recognized during the period	16,448	574
Revenue recognized during the period that was recorded during the period	(10,971)	
Transfers	972	(972)
Balance, end of period September 30, 2018	$ 12,348	$ 1,553
Amount refundable at beginning of period	$ 12,450	$ 1,677
Amount refundable at end of period	$ 12,221	$ 1,553

We expect to satisfy these performance obligations as follows:

For the Twelve Months Ended September 30,	**Amount** *(Dollars in thousands)*
2019	$ 12,348
2020	719
2021	354
2022	177
2023	101
Thereafter	202
	$ 13,901

Significant Financing Component

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

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

Variable Consideration

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

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

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

Trade and Barter Transactions

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

Trade and barter revenues and expenses were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2018**	2017	**2018**
	(Dollars in thousands)			
Net broadcast barter revenue	$ 1,580	$ **1,384**	$ 4,105	$ **4,915**
Net digital media barter revenue				**93**
Net publishing barter revenue	7	**3**	47	**10**
Net broadcast barter expense	$ 1,663	$ **1,458**	$ 3,928	$ **4,211**
Net digital media barter expense		**3**		**3**
Net publishing barter expense	1	**7**	84	**9**

Practical Expedients and Exemptions

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

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

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

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

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

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

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

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

	Nine Months Ended September 30, 2018			
	Broadcast	**Digital Media**	**Publishing**	**Consolidated**
	(dollars in thousands)			
By Source of Revenue:				
Block Programming - National	$ 37,318	$	$	$ 37,318
Block Programming - Local	24,643			24,643
Spot Advertising - National	12,126			12,126
Spot Advertising - Local	41,224			41,224
Infomercials	1,464			1,464
Network	14,501			14,501
Digital Advertising	4,764	16,159	346	21,269
Digital Streaming	584	3,316		3,900
Digital Downloads and eBooks		3,722	1,155	4,877
Subscriptions	789	6,052	699	7,540
Book Sales and e-commerce	360	1,533	9,673	11,566
Self-Publishing fees			4,231	4,231
Advertising - Print	36		454	490
Other Revenues	9,616	269	561	10,446
	$ 147,425	**$ 31,051**	**$ 17,119**	**$ 195,595**
Timing of Revenue Recognition				
Point in Time	$ 145,892	$ 30,969	$ 17,073	$ 193,934
Rental Income(1)	1,533	82	46	1,661
	$ 147,425	**$ 31,051**	**$ 17,119**	**$ 195,595**

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

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

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

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

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

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

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

In January of this year we hired a VP of Local Digital to expand our role as a digital advertising agency to provide a full range of digital products to our customers. In our role as a digital agency, our sales team provides our customers with integrated digital advertising solutions that optimize the performance of their campaign, which we view as one performance obligation. Our advertising campaigns are designed to be white label agreements between Salem and our advertiser, meaning we provide special care and attention to the details of the campaign. We provide custom digital product offerings, including tools for metasearch, retargeting, website design, reputation management, online listing services, and social media marketing. Digital advertising solutions may include third-party websites, such as Google or Facebook, which can be included in a digital advertising social media campaign. We manage all aspects of the digital campaign, including social media placements, review and approval of target audiences, and the monitoring of actual results to make modifications as needed. We may contract directly with a third-party, however, we are responsible for delivering the campaign results to our customer with or without the third-party. We are responsible for any payments due to the third-party regardless of the campaign results and without regard to the status of payment from our customer. We have discretion in setting the price to our customer without input or approval from the third-party. Accordingly, revenue is reported gross, as principal, as the performance obligation is delivered, which represents the point in time that control is transferred to the customer thereby completing our performance obligation.

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

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

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We plan to adopt the new standard on its effective date of January 1, 2020. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

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

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* which provides a new transition method and a practical expedient for separating components of a lease contract. ASU 2018-11 is intended to reduce the costs and ease the implementation of the new leasing standard for financial statement preparers. The effective date and transition requirements for the amendments related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. The guidance in ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We will adopt this new accounting standard on January 1, 2019, the effective date of ASU 2016-02. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

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

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

In June 2018, the FASB issued ASU 2018-07, *Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment*. ASU 2018-07 aligns the accounting for share based payments granted to non-employees with that of share based payments granted to employees. The standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years with early adoption permitted. We plan to adopt this new accounting standard on its effective date of January 1, 2021. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (The Act). Consequently, the amendments eliminate the stranded tax effects resulting from the Act to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. We plan to adopt this new accounting standard on its effective date of January 1, 2019. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842.* ASU 2018-01 provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. ASU 2018-01 is effective with ASU 2016-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. We will adopt this new accounting standard on January 1, 2019, the effective date of ASU 2016-02. Refer to the discussion of ASU 2016-02 below for the impact on our financial position, results of operations, cash flows, or presentation thereof.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better align risk management activities in financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. We plan to adopt this new accounting standard on its effective date of January 1, 2019. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In March 2017, the FASB issued ASU 2017-08, *Receivables   Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium to a shorter period based on the earliest call date. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We plan to adopt this new accounting standard on its effective date of January 1, 2019. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In October 2016, the FASB issued ASU 2016-16 *Intra-Entity Transfers of Assets Other Than Inventory* which modifies existing guidance for the accounting for income tax consequences of intra-entity transfers of assets. This ASU requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, rather than deferring the tax consequences under current GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, and interim reports within those fiscal years, with early adoption permitted only as of the first quarter of a fiscal year. We plan to adopt this new accounting standard on its effective date of January 1, 2019. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses,* which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking   expected loss   model that will replace today   s   incurred loss   model and generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except that the losses will be recognized as an allowance. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. We plan to adopt this new accounting standard on its effective date of January 1, 2020. We do not expect the adoption of this accounting standard to have a material impact on our financial position, results of operations, cash flows, or presentation thereof.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that lessees recognize a right-of-use asset and a lease liability for all leases with lease terms greater than twelve months in the balance sheet. ASU 2016-02 requires additional disclosures including the significant judgments made by management to provide insight into the revenue and expense to be recognized from existing contracts and the timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. We plan to elect the practical expedients upon transition to retain the existing lease classification and retain the treatment of any initial direct costs for leases in existence prior to adoption of the standard. We will adopt the optional transition method allowing entities to recognize a cumulative effect adjustment to the opening balance of stockholders equity in the period of adoption, with no restatement of comparative prior years. We are reviewing our existing lease contracts and other agreements, establishing the necessary changes to our systems, and implementing a new software solution designed to account for leases under ASC 842. The adoption of ASC 842 will have a material impact on our consolidated balance sheet, but is not expected to have a material impact on our consolidated income statements. We will adopt this new accounting standard on its effective date of January 1, 2019. We have not yet determined the dollar impact of recording leases on our consolidated balance sheet. Our existing credit facility stipulates that our covenants are based on GAAP as of the agreement date. Therefore, the material impact of recording right-to-use assets and lease liabilities on our consolidated balance sheet will not impact our debt covenants.

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

Approximately 71% of our total assets as of September 30, 2018 consist of indefinite-lived intangible assets, such as broadcast licenses, goodwill and mastheads, the value of which depends significantly upon the operating results of our businesses. In the case of our radio stations, we would not be able to operate the properties without the related FCC license for each station. Broadcast licenses are renewed with the FCC every eight years for a nominal cost that is expensed as incurred. We continually monitor our stations compliance with the various regulatory requirements. Historically, all of our broadcast licenses have been renewed at the end of their respective periods, and we expect that all broadcast licenses will continue to be renewed in the future. Accordingly, we consider our broadcast licenses to be indefinite-lived intangible assets in accordance with FASB ASC Topic 350, *Intangibles Goodwill and Other*. Broadcast licenses account for approximately 93% of our indefinite-lived intangible assets. Goodwill and mastheads account for the remaining 7%. We do not amortize goodwill or other indefinite-lived intangible assets, but rather test for impairment at least annually or more frequently if events or circumstances indicate that an asset may be impaired.

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We complete our annual impairment tests in the fourth quarter of each year. We believe that our estimate of the value of our broadcast licenses, mastheads, and goodwill is a critical accounting estimate as the value is significant in relation to our total assets, and our estimates incorporate variables and assumptions that are based on past experiences and judgment about future operating performance of our markets and business segments. If actual operating results are less favorable than the assumptions and estimates we used, or if we reduce our estimates of future operating results, 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 16.

During the second quarter of 2018, we entered into an agreement to sell radio station KGBI-FM at a price that was less than our carrying amount. When considering the sale price during our qualitative assessment, we noted it was more likely than not that the fair value of the Omaha market cluster was less than its carrying amount. We performed the first step of the two-step impairment test by estimating the fair value of the market cluster remaining to the carrying value. The first step test indicated that the fair value of the market cluster exceeded the carrying amount by 7%. We did not perform step 2 of the impairment test based on these results.

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

The primary assumptions used in the Greenfield Method are:

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

(2) normalized market share,

(3) normalized profit margin,

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

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

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

Long-term market revenue growth rate	1.9%
Operating profit margin ranges	(13.9)% -30.8%
Risk-adjusted discount rate	9.0%

There were no other indications of impairment during the period ended September 30, 2018. During the period ended June 30, 2017, we recorded an impairment charge of $19,000 associated with mastheads based on our decision to cease publishing Preaching Magazine, YouthWorker Journal, FaithTalk Magazine and Homecoming® The Magazine upon delivery of the May 2017 print publications.

NOTE 3. IMPAIRMENT OF LONG-LIVED ASSETS

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

There were no indications of impairment during the period ended September 30, 2018. We reviewed long-lived assets associated with Preaching Magazine, YouthWorker Journal, FaithTalk Magazine and Homecoming The Magazine as of March 31, 2017, due to our decision to cease publishing these magazines as of the May 2017 issue. We recorded a $1.9 million decrease in the cost and a $1.9 million decrease in the accumulated amortization for fully amortized assets, including subscriber lists and domain names associated with these magazines. There was no impairment loss or adjustment required to the previously estimated useful lives of these assets.

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NOTE 4. ACQUISITIONS AND RECENT TRANSACTIONS

During the nine month period ended September 30, 2018, we completed or entered into the following transactions:

Debt

On May 4, 2018, we repurchased $4.0 million of the 6.75% Senior Secured Notes for $3.8 million, or 94.25% of the face value. This transaction resulted in a net pre-tax gain on the early retirement of debt of approximately $0.1 million after bond issue costs associated with the Notes were adjusted for the repurchase.

On April 10, 2018, we repurchased $4.0 million of the 6.75% Senior Secured Notes for $3.9 million, or 96.25% of the face value. This transaction resulted in a net pre-tax gain on the early retirement of debt of approximately $63,000 after bond issue costs associated with the Notes were adjusted for the repurchase.

On April 9, 2018, we repurchased $2.0 million of the 6.75% Senior Secured Notes for $1.9 million, or 96.5% of the face value. This transaction resulted in a net pre-tax gain on the early retirement of debt of approximately $27,000 after bond issue costs associated with the Notes were adjusted for the repurchase.

Equity

On September 5, 2018, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.7 million was paid on September 28, 2018 to all Class A and Class B common stockholders of record as of September 17, 2018.

On May 31, 2018, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.7 million was paid on June 29, 2018 to all Class A and Class B common stockholders of record as of June 15, 2018.

On February 28, 2018, we announced a quarterly equity distribution in the amount of $0.0650 per share on Class A and Class B common stock. The equity distribution of $1.7 million was paid on March 28, 2018 to all Class A and Class B common stockholders of record as of March 14, 2018.

Acquisitions

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

On 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. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of the Hilary Kramer Financial Newsletter to achieve the income targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $40,617, which was recorded at the discounted present value of $39,360. The discount will be accreted to interest expense over the two year earn-out period. We recorded goodwill of $0.3 million attributable to the expected synergies to be realized when combining the operations of this entity into our existing operations.

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

On July 25, 2018, we acquired selected assets of radio station KZTS-AM (formerly KDXE-AM) and an FM Translator in Little Rock, Arkansas for $0.2 million in cash. The acquisition was accounted for as an asset purchase with transaction costs of $30,000 capitalized. The radio station is currently operated under an LMA agreement with another party and is not reflected in the accompanying Condensed 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. Childrens-Ministry-Deals.com offers biblically-based curriculums for children ages 3 through age 18. We paid $3.5 million in cash upon closing and may pay an additional $0.2 million in cash within twelve months from the closing date provided that the seller meet certain post-closing requirements with regard to intellectual property. We recorded goodwill of $0.7 million attributable to the expected synergies to be realized when combining the operations of this entity into our existing operations.

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

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 nine month period ended September 30, 2018, none of which were individually or in the aggregate material to our Condensed Consolidated financial position as of the respective date of acquisition, is as follows:

Acquisition Date	Description		Total Cost
			(Dollars in thousands)
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**

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

Estimates of the fair value include discounted estimated cash flows to be generated by the assets and their expected useful lives based on historical experience, market trends and any synergies believed to be achieved from the acquisition. Acquisitions may include contingent consideration, the fair value of which is estimated as of the acquisition date as the present value of the expected contingent payments as determined using weighted probabilities of the payment amounts.

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

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

Property and equipment are recorded at the estimated fair value and depreciated on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are recorded at their estimated fair value and amortized on a straight-line basis over their estimated useful lives. Goodwill, which represents the organizational systems and procedures in place to ensure the effective operation of the entity, may also be recorded and tested for impairment. Costs associated with business acquisitions, such as consulting and legal fees, are expensed as incurred. We recognized costs associated with acquisitions of $0.2 million during the nine month period ended September 30, 2018 compared to $0.1 million during the same period of the prior year, which are included in unallocated corporate expenses in the accompanying Condensed Consolidated Statements of Operations.

The total acquisition consideration is equal to the sum of all cash payments, the fair value of any deferred payments and promissory notes, and the present value of any estimated contingent earn-out consideration. We estimate the fair value of contingent earn-out consideration using a probability-weighted discounted cash flow model. The fair value measurement is based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Note 16 - Fair Value Measurements.

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The following table summarizes the total acquisition consideration for the nine month period ended September 30, 2018:

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

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

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

Divestitures

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

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

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

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

We programmed radio station KHTE-FM, in Little Rock, Arkansas, under a TBA that began on April 1, 2015. We had the option to acquire the station for $1.2 million in cash during the TBA period. We ceased operating the station on April 30, 2018 and did not exercise our purchase option. We paid the licensee a $0.1 million fee for not exercising our option to purchase the station.

On December 29, 2017, we entered into two LMAs to program radio stations KPAM-AM and KKOV-AM in Portland, Oregon. We began operating the radio stations on January 2, 2018. The LMAs had an original term of up to 12-months. The LMAs terminated on March 30, 2018 when the radio stations were sold to another party. The accompanying Condensed Consolidated Statements of Operations reflects the operating results of these entities during the LMA term.

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Pending Transactions

On July 23, 2018, we entered into an APA to sell radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska for $1.4 million in cash. Based on our intent to sell these assets, we recorded the assets as held for sale at June 30, 2018 and recognized an estimated loss of $1.6 million based on the sale price and the estimated costs to sell. The buyer began programming the stations under an LMA on August 8, 2018. The transaction closed on October 31, 2018.

On April 26, 2018, we entered an agreement to exchange radio station KKOL-AM, in Seattle, Washington for KPAM-AM in Portland, Oregon. We are currently operating radio station KPAM-AM under an LMA that was entered with the exchange agreement. We previously operated KPAM-AM under a separate LMA that began on January 2, 2018. The accompanying Condensed Consolidated Statements of Operations reflects the operating results of this station as of January 2, 2018. The exchange transaction is subject to the approval of the FCC and is expected to close in the fourth quarter of 2018.

Assets Held for Sale

We record assets as held for sale in the period in which all of the following criteria are met:

- Management, having the authority to approve the action, commits to a plan to sell the asset or entity;
- the asset or entity is available for immediate sale in its present condition;
- an active program to locate a buyer and other actions required to complete the plan to sell have been initiated;
- the sale is probable and transfer is expected to be completed within one year or as subject to approval of the FCC;
- the asset or entity is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

When the held for sale criteria is met, but the disposal does not meet the criteria to be treated as discontinued operations, the assets or disposal group are reclassified from the corresponding balance sheet line items to Assets held for sale. Assets held for sale are carried at the lower of the carrying amount or fair value less cost to sell. We determined the fair value of these assets utilizing offers from third parties, which is a Level 3 measurement as discussed in Note 16.

At September 30, 2018, assets held for sale consist of radio stations KCRO-AM and KOTK-AM in Omaha, Nebraska.

NOTE 5. CONTINGENT EARN-OUT CONSIDERATION

Our acquisitions may include contingent earn-out consideration as part of the purchase price under which we will make future payments to the seller upon the achievement of certain benchmarks. The fair value of the contingent earn-out consideration is estimated as of the acquisition date at the present value of the expected contingent payments to be made using a probability-weighted discounted cash flow model for probabilities of possible future payments. The present value of the expected future payouts is accreted to interest expense over the earn-out period. The fair value estimates use unobservable inputs that reflect our own assumptions as to the ability of the acquired business to meet the targeted benchmarks and discount rates used in the calculations. The unobservable inputs are defined in FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* as Level 3 inputs discussed in detail in Note 16.

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

Hilary Kramer Financial Newsletters

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

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimated revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.1 million. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the period ended September 30, 2018.

Just1Word Mobile Application

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

We review the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual revenues achieved and projected to the estimated revenues used in our forecasts. Any changes in the estimated fair value of the contingent earn-out consideration will be reflected in our results of operations in the period they are identified, up to the maximum future value outstanding under the contract of $0.1 million. There were no changes in our estimates of the fair value of the contingent earn-out consideration as of the period ended September 30, 2018.

TradersCrux.com

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

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

Portuguese Bible Mobile Application

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

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

Turner Investment Products

We acquired Mike Turner s line of investment products, including TurnerTrends.com and other domain names and related assets on September 13, 2016. We paid $0.4 million in cash upon closing and may have paid up to an additional $0.1 million in contingent earn-out consideration payable over the next twelve months based on the achievement of certain revenue benchmarks. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Turner s investment products to achieve the revenue targets at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $66,000, which approximated the discounted present value due to the earn-out period of less than one year. We reviewed the fair value of the contingent earn-out consideration quarterly over the earn-out period to compare actual subscriber revenues achieved and projected to the estimated subscriber revenues used in our forecasts. Changes in the estimated fair value of the contingent earn-out consideration were reflected in our results of operations in the period they were identified, up to the maximum future value outstanding under the contract of $0.1 million. As of the end of the earn-out period on September 13, 2017, the estimated fair value of the contingent earn-out consideration was valued at $0.00 based on actual revenue achieved. We made no cash payments to the seller during the earn-out period.

Daily Bible Devotion

We acquired Daily Bible Devotion mobile applications on May 6, 2015. We paid $1.1 million in cash upon closing and may have paid up to an additional $0.3 million in contingent earn-out consideration payable over the next two years based upon on the achievement of cumulative session benchmarks for each mobile application. Using a probability-weighted discounted cash flow model based on our own assumptions as to the ability of Bible Devotional Applications to achieve the session benchmarks at the time of closing, we estimated the fair value of the contingent earn-out consideration to be $165,000, which was recorded at the discounted present value of $142,000. The discount was accreted to interest expense over the two-year earn-out period. As of the end of the earn-out period on May 6, 2017, we recorded a net decrease of $4,000 in the estimated fair value of the contingent earn-out consideration based on actual session results at the end of the earn-out period that was reflected in our operating results for the year ended December 31, 2017. We paid a total of $75,000 to the seller over the two-year earn-out period ended May 6 2017, with no cash payments made during the year ended December 31, 2017.

Bryan Perry Newsletters

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

NOTE 6. INVENTORIES

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

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

	December 31, 2017	**September 30, 2018**
	(Dollars in thousands)	
Regnery Publishing book inventories	$ 2,038	$ **1,341**
Reserve for obsolescence Regnery Publishing	(1,621)	**(786)**
Inventory, net - Regnery Publishing	417	**555**
Wellness products	$ 349	$ **346**
Reserve for obsolescence Wellness products	(36)	**(10)**
Inventory, net - Wellness products	313	**336**
Consolidated inventories, net	$ 730	$ **891**

NOTE 7. BROADCAST LICENSES

The following table presents the changes in broadcasting licenses that include acquisitions and divestitures of radio stations and FM translators as discussed in Note 4 of our Condensed Consolidated Financial Statements.

Broadcast Licenses	Twelve Months Ended December 31, 2017	**Nine Months Ended September 30, 2018**
	(Dollars in thousands)	
Balance, beginning of period before cumulative loss on impairment	$ 494,058	$ **486,455**
Accumulated loss on impairment	(105,541)	**(105,541)**
Balance, beginning of period after cumulative loss on impairment	388,517	**380,914**
Acquisitions of radio stations	191	**6,270**
Acquisitions of FM translators and construction permits	198	**11**
Capital projects to improve broadcast signal and strength	5	
Dispositions of radio stations	(7,997)	**(8,013)**
Balance, end of period before cumulative loss on impairment	486,455	**484,723**