

SALEM MEDIA GROUP, INC. /DE/  
Form DEFA14A  
April 22, 2019

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

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. 2)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule §240.14a-12

**SALEM MEDIA GROUP, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:
  
2. Aggregate number of securities to which transaction applies:
  
3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
4. Proposed maximum aggregate value of transaction:
  
5. Total fee paid:

SEC 1913 (04-05)

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:
  
2. Form, Schedule or Registration Statement No.:
  
3. Filing Party:
  
4. Date Filed:

**SUPPLEMENT NO. 2 TO PROXY STATEMENT**

**FOR**

**2019 ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD WEDNESDAY, MAY 8, 2019**

**EXPLANATORY NOTE**

On March 29, 2019, Salem Media Group, Inc. (the Company ) filed its Definitive Proxy Statement on Schedule 14A, as supplemented by the Supplement to Proxy Statement filed on April 2, 2019 (the Proxy Statement ), and the related Proxy Card (the Proxy Card ) for the Company's 2019 Annual Meeting of Stockholders with the Securities and Exchange Commission (the SEC ). The Proxy Statement was filed in connection with the Company's 2019 Annual Meeting of Stockholders to be held on May 8, 2019 (the Annual Meeting ).

This supplement to the Proxy Statement is being filed to (a) correct certain statements included in the Proxy Statement concerning delivery of proxy materials to stockholders; (b) add a description of the material features of the Company's 1999 Stock Incentive Plan in connection with Proposal 2 that is soliciting a vote to amend and restate the Company's 1999 Stock Incentive Plan, which information was inadvertently omitted from the Proxy Statement when originally filed with the SEC; and (c) correct information in the Beneficial Ownership table regarding the number of shares beneficially owned by one of the Company's directors.

Other than the foregoing, no other changes have been made to the Proxy Statement and it continues to be in full force and effect as originally filed. Management continues to seek the vote of the Company's stockholders for all proposals to be voted on at the Annual Meeting.

**Supplement to Certain Statements Regarding Access to Proxy Materials**

The following third full paragraph on page 1 of the Proxy Statement is deleted from the Proxy Statement:

*As we have done in prior years, we are using the U.S. Securities and Exchange Commission rule that permits companies to furnish their proxy materials over the Internet. Unless you have opted out of receiving Notices, instead of mailing you a paper copy of the proxy materials, we will be mailing to you a Notice containing instructions on how to access our proxy materials over the Internet. Therefore, a proxy card was not sent to you and you may vote only via telephone or online if you do not attend the Annual Meeting.*

The following second full paragraph on page 3 of the Proxy Statement is deleted:

***Electronic Access to Proxy Materials***

*Pursuant to applicable United States Securities and Exchange Commission ( SEC ) rules, we are making this Proxy Statement and its Annual Report on Form 10-K, as amended, available to its stockholders electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com). On or about March 29, 2019, we will mail to stockholders a Notice containing instructions on how to access this Proxy Statement along with our Annual Report on Form 10-K as well as instructions on how to vote online. The Notice also instructs you on how you may submit your proxy vote securely over the Internet or by telephone. If you received a Notice, you will not automatically receive a printed copy of the Proxy Statement and Annual Report. If you would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials as set forth in the Notice.*

The immediately foregoing deleted paragraph is replaced with the following:

***Full Set Delivery of Proxy Materials and Electronic Access and Voting***

*The Company's Annual Report on Form 10-K for the year ended December 31, 2018, including audited financial statements, is being mailed to stockholders along with these proxy materials. Exhibits to the Annual*

*Report on Form 10-K may be obtained from the Company upon payment of the Company's reasonable expenses to furnish such exhibits. To obtain any such exhibits, contact Christopher J. Henderson, Secretary, Salem Media Group, Inc., 4880 Santa Rosa Road, Camarillo, California 93012.*

*Pursuant to applicable United States Securities and Exchange Commission ( SEC ) rules, we are also making this Proxy Statement and our Annual Report on Form 10-K available to our stockholders electronically via the Internet at [www.proxyvote.com](http://www.proxyvote.com). On or about March 29, 2019, we mailed to stockholders a Notice containing instructions on how to access this Proxy Statement along with our Annual Report on Form 10-K as well as instructions on how to vote online. The Notice also instructs you on how you may submit your proxy vote securely over the Internet or by telephone.*

#### Supplement to Proposal 2

Proposal 2 is amended and restated as set forth herein.

Capitalized terms used but not otherwise defined in this supplement have the meanings ascribed to them in the Proxy Statement. This Proxy Statement Supplement No. 2 should be read together with the Proxy Statement.

#### Supplement to Correct Beneficial Ownership Information

The table entitled **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT** commencing immediately after page 20 in the Proxy Statement is amended and restated as set forth herein.

## PROPOSAL 2

### PROPOSAL TO AMEND AND RESTATE

#### THE COMPANY S 1999 STOCK INCENTIVE PLAN

On May 29, 1999, the Company adopted the 1999 Stock Incentive Plan, as amended in 2001 and further amended and restated in 2003, 2005, 2009, 2012, and 2017 (the Stock Plan ), to promote the interests of the Company and its stockholders by using investment interests in the Company to attract, retain and motivate its employees and other persons, to encourage and reward their contributions to the performance of the Company and to align their interests with the interests of the Company s stockholders.

The maximum number of shares of Class A common stock (for purpose of Proposal 2, the Class A Common Stock ) that may be issued pursuant to awards granted under the Stock Plan is currently 5,000,000 (subject to adjustment as set forth in the Stock Plan). As of April 16, 2019, awards covering a total of 1,829,472 shares were outstanding or had been exercised under the Stock Plan and only 447,854 shares remain available for future awards. The Company relies heavily upon the Stock Plan to recruit, retain and reward qualified employees, officers, consultants, advisors and directors, and the board has approved, subject to approval by the Company s stockholders, an amendment and restatement of the Stock Plan to make available an additional 3,000,000 shares of Class A Common Stock for awards under the Stock Plan (subject to adjustments as set forth in the Stock Plan).

If the stockholders do not approve Proposal 2 and, as a consequence, the Company is unable to continue to grant options at competitive levels, we believe that there will be a negative effect to the Company s ability to meet its needs for highly qualified personnel and to manage future growth. Without these proposed new shares, the current shares available for grant under the Stock Plan will not be sufficient to maintain our current option grant practice for promotions or merit awards for current employees after May, 2019.

The Compensation Committee and the Board of Directors have reviewed the Stock Plan to determine whether it remains a flexible and effective source of incentive compensation in terms of the number of shares of our common stock available for awards and in terms of its design, as well as whether it generally conforms with best practices in today s business environment.

Based on their review, the Compensation Committee approved and recommended to the Board of Directors, and the Board of Directors approved, an amendment and restatement of the Stock Plan, effective May 8, 2019, subject to approval by our stockholders at the 2019 Annual Meeting. We are asking stockholders to approve the amended and restated Stock Plan as described in this Proposal 2, which would increase the maximum number of shares of common stock that may be issued from 5,000,000 to 8,000,000.

#### **Interest of Certain Persons in Matters to be Acted Upon**

Pursuant to the Stock Plan, each of the directors and executive officers, among others, is eligible to receive awards under the Stock Plan. Participation in the Stock Plan is at the discretion of the Board or its appointed committee and, accordingly, future participation by directors, executive officers and other employees under this Stock Plan is not determinable. However, if this proposal is approved, the maximum number of shares available under the Stock Plan will be increased by 3,000,000 shares.

#### **Vote Required and Board of Directors Recommendation**

The affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting, at which a quorum representing a majority of the voting power of all outstanding shares of Class A common

stock and Class B common stock is present and entitled to vote, is required to approve Proposal 2. If we do not obtain stockholder approval, then the Company will not implement the proposed amendment and restatement of the Stock Plan increasing the available shares of Class A Common Stock by 3,000,000. The Stock Plan will, however, remain in effect. The Board believes that the proposed amendment and restatement of the Stock Plan is in the best interests of the Company and our stockholders for the reasons stated above. **THE**

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**BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 2.**

**Summary of the Stock Plan**

The following is a summary of the principal features of the Stock Plan as in effect and as proposed to be amended and restated by Proposal 2. The summary is qualified in its entirety by Proposal 2 and the Stock Plan, a copy of which, as proposed to be amended and restated, is attached as Appendix A to this Supplement No. 2.

The Stock Plan is administered by the Board or a committee of directors appointed by the Board, such committee members meeting the requirement of committee membership required by the Stock Plan (the Administering Body ). Subject to the express provisions of the Stock Plan, the Administering Body is authorized to implement, interpret and construe the Stock Plan and any documents defining the rights and obligations of the Company and recipients thereunder, to determine all questions arising thereunder, to adopt and amend such rules and regulations for the administration thereof as it may deem desirable and otherwise to carry out the terms of the Stock Plan and such other documents. The interpretation and construction by the Administering Body of any provisions of the Stock Plan or of any award thereunder will be conclusive and binding. Any action taken by, or inaction of, the Administering Body relating to the Stock Plan or any awards thereunder will be in the sole discretion of the Administering Body and will be conclusive and binding upon all persons.

The Administering Body may select the eligible persons to whom, and the times at which, Stock Plan awards will be granted or sold, the nature of each award, the number of shares of Class A common stock or the number of rights that make up or underlie each award, the period for the exercise of each award and such other terms and conditions applicable to each award as the Administering Body may determine. The Administering Body may grant awards singly, in combination or in tandem with other awards. The purchase price, exercise price, initial value and any and all other terms and conditions of the awards may be established by the Administering Body without regard to existing awards or other grants.

**Persons Eligible to Participate in the Stock Plan**

The persons eligible to receive awards under the Stock Plan include directors, officers, employees, consultants and advisors of the Company and its affiliated entities. However, Incentive Stock Options (defined below) may be granted only to eligible persons meeting the employment requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code ). For purposes of the Stock Plan, the term affiliated entities means any parent corporation or subsidiary corporation of the Company, as defined in Code Sections 424(e) and 424(f), respectively.

**Awards**

Subject to certain limitations specified in the Stock Plan, the Administering Body may, in its discretion, grant to eligible persons any one or more of the following awards under the Stock Plan: stock options; performance awards; restricted stock; stock appreciation rights; stock payments; dividend equivalents; stock bonuses; stock sales; phantom stock; and other stock-based benefits. Each award will be evidenced by an agreement duly executed on behalf of the Company and by the recipient or, in the Administering Body's discretion, a confirming memorandum issued by the Company to the recipient, setting forth such terms and conditions applicable to the award as the Administering Body may determine. Payment of the exercise price or other payment for an award shall be payable upon the exercise of a stock option or upon other purchase of shares pursuant to an award granted under the Stock Plan and may be made by (i) legal tender of the United States, (ii) shares of Class A common stock (if either the underlying agreement or the Administering Body so permit and if the Company is not prohibited from acquiring its shares) or (iii) such other lawful consideration the Administering Body may deem acceptable in any particular instance.



*Stock Options.* The Administering Body may grant to eligible persons stock options that either qualify as incentive stock options under Code Section 422 ( Incentive Stock Options ) or do not qualify as Incentive Stock Options ( Nonqualified Stock Options ).

The exercise price for each stock option will be determined by the Administering Body as of the date such stock option is granted. However, the exercise price may be no less than the fair market value of the Class A common stock subject to the stock option as of the date the stock option is granted. In the case of a grant of an Incentive Stock Option to a Significant Stockholder (defined below), the exercise price must not be less than 110% of the fair market value of the Class A common stock subject to the Incentive Stock Option as of the date the Incentive Stock Option is granted. Each stock option and all rights or obligations thereunder will expire on a date determined by the Administering Body, but not later than ten years after the date the stock option is granted (or five years from the date of grant in the case of an Incentive Stock Option granted to a Significant Stockholder, or for Nonqualified Stock Options, a date later than ten years after the stock option is granted as determined by the Administering Body), and will be subject to earlier termination as provided in the Stock Plan or the award document. Except as otherwise provided in the Stock Plan, a stock option will become exercisable, as a whole or in part, on the date or dates specified by the Administering Body and thereafter will remain exercisable until the expiration or earlier termination of the stock option.

Stock options will be exercisable only in whole shares and any fractional share interests will be disregarded. A stock option will be deemed to be exercised when the Secretary or other designated official of the Company receives written notice of such exercise from the recipient, together with payment of the exercise price made in accordance with the provisions of the Stock Plan. Notwithstanding any other provision of the Stock Plan, the Administering Body may impose such conditions upon the exercise of stock options (including conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements including Rule 16b-3 and Rule 10b-5 under the Securities Exchange Act of 1934, as amended (the Exchange Act) and any amounts required to satisfy any federal, state and local withholding tax requirements prior to issuance of such shares.

For purposes of the Stock Plan, a Significant Stockholder means a stockholder who, at the time a stock option is granted to such individual under the Stock Plan, owns more than 10% of the combined voting power of all classes of stock of the Company or of any parent corporation or subsidiary corporation (after application of the attribution rules set forth in Code Section 424(d)).

*Performance Awards.* The Administering Body may grant to eligible persons awards, payable in Class A common stock that vest and become payable over a period of time upon the attainment of performance goals over a performance period established by the Administering Body (Performance Awards). The performance goals for Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Administering Body. The Administering Body may determine that Performance Awards will be granted, exercised or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise or settlement of the Performance Awards. Performance goals may be established on a Company-wide basis, or with respect to one or more business units, divisions, affiliated entities or business segments, as applicable.

One or more of the following business criteria (or any derivation thereof) for the Company, on a consolidated basis, and/or specified affiliated entities or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), will be used exclusively by the Administering Body in establishing performance goals for Performance Awards: (A) cash flow; (B) earnings per share, as adjusted for any stock split, stock dividend or other recapitalization; (C) earnings measures (including EBIT and EBITDA); (D) return on equity; (E) total stockholder return; (F) share price performance, as adjusted for any stock split, stock dividend or other recapitalization; (G) return on capital; (H) revenue; (I) income; (J) profit margin; (K) return on operating revenue; (L) brand recognition or acceptance; (M) customer metrics (including customer procurement, customer satisfaction, customer retention, customer profitability or customer contract terms); (N) productivity; (O) expense targets and management; (P) budget targets and management; (Q) market share; (R) cost control measures; (S) balance sheet metrics; (T) strategic initiatives; (U) implementation, completion or attainment of measurable objectives with respect to recruitment or retention of personnel or employee satisfaction; (V) return on assets; (W) growth in net sales; (X) the ratio of net sales to net working capital; (Y) stockholder value added; (Z) improvement in management of working capital items

(inventory, accounts receivable or accounts payable); (AA) sales from newly-introduced products; (BB) successful completion of, or

achievement of milestones or objectives related to, financing or capital raising transactions, strategic acquisitions or divestitures, joint ventures, partnerships, collaborations or other transactions; (CC) product quality, safety, productivity, yield or reliability (on time and complete orders); (DD) funds from operations; (EE) regulatory body approval for commercialization of a product; (FF) debt levels or reduction or debt ratios; (GG) economic value; (HH) operating efficiency; (II) research and development achievements; or (JJ) any combination of the forgoing business criteria.

Settlement of Performance Awards may be in cash, shares, other awards or other property. All determinations by the Administering Body as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and the achievement of performance goals relating to Performance Awards, shall be made in writing in the case of any Award intended to qualify as performance-based compensation to the extent required by Code Section 162(m).

*Restricted Stock.* The Administering Body may authorize the grant or sale to eligible persons of Class A common stock that is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met (Restricted Stock). The Administering Body will determine the purchase price (if any) to be paid for the Restricted Stock, the terms of payment, the restrictions upon the Restricted Stock and when such restrictions will lapse. All shares of Restricted Stock will be subject to the following conditions: (a) the shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, alienated or encumbered until the restrictions are removed or expire; (b) the Administering Body may require that the certificates representing Restricted Stock remain in the physical custody of an escrow holder or the Company until all restrictions are removed or expire; (c) each certificate representing Restricted Stock will bear such legend or legends making reference to the restrictions imposed upon such Restricted Stock as the Administering Body deems necessary or appropriate to enforce such restrictions; and (d) the Administering Body may impose such other conditions on Restricted Stock as it deems advisable. Subject to any restrictions imposed upon the Restricted Stock, the recipient thereof will have all rights of the holder of shares of Class A common stock with respect to the Restricted Stock granted or sold to the recipient, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto. Any dividends and other distributions may be subject to the same or similar restrictions as the underlying Restricted Stock. In no event will dividends or other distributions on any award that is subject to the achievement of performance criteria be payable before the award has become earned and payable.

Unless the Administering Body determines otherwise, if a recipient incurs a separation from service for any reason, all of the recipient's Restricted Stock remaining subject to restrictions on the date of such separation from service will be repurchased by the Company at the purchase price paid by the recipient (if any).

*Stock Appreciation Rights.* The Administering Body may grant to eligible persons stock appreciation rights; that is, rights to receive payments measured with reference to the amount by which the fair market value of a specified number of shares of Class A common stock appreciates from a specified date (such as the date of grant of the stock appreciation rights) to the date of exercise. The Administering Body will determine the form in which payment of a stock appreciation right will be made and may consent to or disapprove the election of a recipient to receive cash in full or partial settlement of a stock appreciation right. Further, the Administering Body may, at the time a stock appreciation right is granted, impose such conditions on the exercise of the stock appreciation right as may be required to satisfy the requirements of Rule 16b-3 under the Exchange Act.

Stock appreciation rights granted under the Stock Plan may be related or unrelated to stock options. A stock appreciation right related to a stock option will entitle the holder of the related stock option, upon exercise of the stock appreciation right, to surrender such stock option, or any portion thereof to the extent previously vested but unexercised, with respect to the number of shares as to which such stock appreciation right is exercised and to receive payment of an amount determined by multiplying (a) the difference obtained by subtracting the exercise price of a share of Class A common stock specified in the related stock option from the fair market value of a share of Class A

common stock on the date of exercise of such stock appreciation right (or as of such other date specified in the instrument evidencing the stock appreciation right), by (b) the number of shares as to which such stock appreciation right is exercised. Such stock option will, to the extent surrendered, then cease to be

exercisable. A stock appreciation right granted in connection with a stock option will be exercisable at such time or times, and only to the extent that, the related stock option is exercisable, and will not be transferable except to the extent that such related stock option may be transferable.

The amount payable upon exercise of a stock appreciation right that is unrelated to a stock option will be determined in accordance with the formula described in the preceding paragraph, except that in lieu of the option exercise price specified in the related stock option, the initial base amount specified in the award will be used.

*Stock Payments.* The Administering Body may grant stock payments of the Company's Class A common stock to any eligible person for all or any portion of the compensation (other than base salary) or other payment that would otherwise become payable by the Company to the eligible person in cash.

*Dividend Equivalents.* The Administering Body may grant dividend equivalents to any recipient under the Stock Plan who has received a stock option, stock appreciation rights or other award denominated in shares of Class A common stock. Such dividend equivalents will entitle the holders thereof to receive from the Company during the applicable dividend period (as defined in the Stock Plan) payments equivalent to the amount of dividends payable to holders of the number of shares of Class A common stock underlying such stock option, stock appreciation rights or other award. Dividend equivalents may be paid in cash, Class A common stock or other awards. The amount of dividend equivalents paid other than in cash will be determined by the Administering Body by application of such formula as the Administering Body may deem appropriate to translate the cash value of dividends paid to the alternative form of payment of the dividend equivalent. Dividend equivalents will be computed as of each dividend record date and will be payable to recipients thereof at such time as the Administering Body may determine. In no event will dividends or other distributions on any award that is subject to the achievement of performance criteria be payable before the award has become earned and payable.

*Stock Bonuses.* The Administering Body may issue shares of Class A common stock to eligible persons as bonuses for services rendered or for any other valid consideration on such terms and conditions as the Administering Body may determine.

*Stock Sales.* The Administering Body may sell to eligible persons shares of Class A common stock on such terms and conditions as the Administering Body may determine.

*Phantom Stock.* The Administering Body may grant to eligible persons awards of phantom stock; that is, a cash award granted under the Stock Plan measured by the fair market value of a specified number of shares of Class A common stock on a specified date, or measured by the excess of such fair market value over a specified minimum, which may but need not include a dividend equivalent.

*Other Stock-Based Benefits.* The Administering Body may grant to eligible persons other stock-based benefits not otherwise described above that (a) by their terms might involve the issuance or sale of Class A common stock or (b) involve a benefit that is measured, as a whole or in part, by the value, appreciation, dividend yield or other features attributable to a specified number of shares of Class A common stock. Other stock-based benefits may be granted in lieu of other cash or other compensation to which a recipient is entitled from the Company or an affiliated entity or may be used in the settlement of amounts payable in shares under any other compensation plan or arrangement of the Company or an affiliated entity.

### **Prohibition on Repricing**

The repricing of stock options or stock appreciation rights under the Stock Plan is prohibited without prior approval of the stockholders. For this purpose, a repricing means any of the following (or any other action that has the same effect as any of the following): (a) changing the terms or conditions of a stock option or stock appreciation right to lower its

exercise price; (b) any other action that is treated as a repricing under generally accepted accounting principles; and (c) repurchasing for cash or canceling a stock option or stock appreciation right at a time when its exercise price is greater than the fair market value of the underlying shares in exchange for another award; unless the cancellation and exchange occurs in connection with a change in capitalization or similar change.

### **Award Limits**

Subject to adjustment, all 8,000,000 shares available for issuance under the Stock Plan will be available for issuance as Incentive Stock Options. Subject to adjustment, the maximum number of each type of award (other than cash-based Performance Awards) granted to any recipient in any calendar year shall not exceed the following number of shares: (i) options and stock appreciation rights 750,000 shares; and (ii) all other share-based performance awards 750,000 shares. The maximum amount of cash-based Performance Awards intended to qualify as performance-based compensation granted to any recipient in any calendar year shall not exceed the following: (i) annual incentive awards \$5,250,000; and (ii) all other cash-based Performance Awards \$5,250,000. The maximum value of awards granted during any calendar year to any nonemployee member of the Board or the board of directors of an affiliated entity, taken together with any cash fees paid to such director during the calendar year and the value of awards granted to the director under any other equity compensation plan of the Company or an affiliated entity during the calendar year, shall not exceed the following in total value (calculating the value of any awards or other equity compensation plan awards based on the fair market value as of the grant date for financial reporting purposes): (i) \$250,000 for the Chair of the Board and (ii) \$250,000 for each nonemployee director other than the Chair of the Board.

### **Amended and Restated Stock Plan Effectiveness and Duration**

The amended and restated Stock Plan will become effective May 8, 2019, subject to stockholder approval of this Proposal 2, and will continue in effect until May 8, 2029 (the Stock Plan Term ), at which time the Stock Plan will automatically terminate. Each award properly granted under the Stock Plan during the Stock Plan Term will remain in effect after termination of the Stock Plan until such award has been exercised, terminated or expired in accordance with its terms and the terms of the Stock Plan.

### **Amendment and Termination**

The Administering Body may, as permitted by applicable law, rule or regulation, from time to time suspend or discontinue the Stock Plan or revise or amend it in any respect whatsoever, and the Stock Plan as so revised or amended will govern all awards thereunder, including those granted before such revision or amendment. However, no such revision or amendment will alter, impair or diminish any rights or obligations under any award previously granted under the Stock Plan without the written consent of the recipient to whom such award was granted. Without limiting the generality of the foregoing, the Administering Body is authorized to amend the Stock Plan to comply with or take advantage of amendments to applicable laws, rules or regulations, including amendments to the Securities Act of 1933, as amended, the Exchange Act, the Code (or any rules or regulations promulgated thereunder) or the rules of any exchange or inter-dealer quotation system upon which the Class A common stock is listed or traded. No stockholder approval of any amendment or revision will be required unless such approval is required by the Stock Plan or by applicable law, rule or regulation.

### **Restrictions on Transferability**

No Stock Plan award will be assignable or transferable except (a) by will or by the laws of descent and distribution, (b) subject to the final sentence of this paragraph, upon dissolution of marriage pursuant to a domestic relations order or (c) in the discretion of the Administering Body and under circumstances that would not adversely affect the interests of the Company, pursuant to a nominal transfer that does not result in a change in beneficial ownership. During the lifetime of a recipient, an award granted to such person will be exercisable only by the recipient (or the recipient's permitted transferee) or such person's guardian or legal representative. However, (i) no award owned by a recipient subject to Section 16 of the Exchange Act may be assigned or transferred in any manner inconsistent with Rule 16b-3 and (ii) Incentive Stock Options (or other awards subject to transfer restrictions under the Code) may not be assigned, transferred or exercisable in violation of Code Section 422(b)(5) and the Stock Plan is intended to allow such assignment or transfer.



**Clawback**

All awards, amounts or benefits received or outstanding under the Stock Plan will be subject to clawback, cancellation, recoupment, rescission, payback, reduction or similar action in accordance with the terms of any

Company clawback or similar policy (the Policy ) or any applicable law related to such actions, as may be in effect from time to time. A recipient's acceptance of an award will be deemed to constitute the recipient's acknowledgment of and consent to the Company's application, implementation and enforcement of any applicable Policy that may apply to the recipient, whether adopted prior or following May 8, 2019, and any provision of applicable law relating to clawback, cancellation, recoupment, rescission, payback or reduction of compensation, and the recipient's agreement that the Company may take such actions as may be necessary to effectuate any such policy or applicable law, without further consideration or action.

### **Governing Law**

The Stock Plan is governed by and interpreted in accordance with the internal laws of the State of Delaware, without giving effect to the principles of the conflicts of laws thereof.

### **Federal Income Tax Consequences**

*General.* The following summary of certain federal income tax consequences of the receipt and exercise of Stock Plan awards granted by the Company is based on the laws and regulations in effect as of the date of this Proxy Statement and does not purport to be a complete statement of the law in this area. Furthermore, the discussion below does not address the tax consequences of awards under foreign, state and/or local tax laws, and such tax laws may not correspond to the federal tax treatment described herein. The exact federal income tax treatment of transactions under the Stock Plan will vary depending on the specific facts and circumstances involved. Accordingly, individuals eligible to receive or exercise awards should consult their personal tax advisors with regard to all consequences arising from the grant or exercise of awards and the disposition of any acquired shares prior to engaging in any transaction related to any award.

Stock options granted under the Stock Plan are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and are not qualified under Code Section 401(a).

*Incentive Stock Options.* Stock options granted under the Stock Plan may qualify as Incentive Stock Options within the meaning of Code Section 422. If an optionee exercises an Incentive Stock Option in accordance with its terms and does not dispose of the shares acquired within two years from the date of the grant of the Incentive Stock Option nor within one year from the date of exercise (the Required Holding Periods ), the optionee generally will not be subject to regular federal income tax, and the Company will not be entitled to any deduction, on either the grant or the exercise of an Incentive Stock Option. An optionee's basis in the shares acquired upon exercise will be the amount paid upon exercise. Provided an optionee holds the shares as a capital asset at the time of sale or other disposition of the shares, an optionee's gain or loss, if any, recognized on the sale or other disposition will be capital gain or loss. The amount of an optionee's gain or loss will be the difference between the amount realized on the disposition of the shares and the optionee's basis in the shares.

If, however, an optionee disposes of the acquired shares at any time prior to the expiration of the Required Holding Periods, then (subject to certain exceptions), the optionee will recognize ordinary income at the time of the disposition which will equal the excess, if any, of the lesser of (a) the amount realized on such disposition or (b) the fair market value of the shares on the date of exercise, over the optionee's basis in the shares. The Company generally will be entitled to a deduction in an amount equal to the amount of ordinary income recognized by an optionee. Any gain in excess of such ordinary income amount will be a short-term or long-term capital gain, depending on the optionee's holding period. If an optionee disposes of such shares for less than the optionee's basis in the shares, the difference between the amount realized and the optionee's basis will be short-term or long-term capital loss, depending upon the holding period of the shares.

The excess of the fair market value of the shares acquired on the exercise date of an Incentive Stock Option over the exercise price of such option generally is required to be included in the optionee's alternative minimum taxable income for the year in which the option is exercised and, accordingly, may subject an optionee to the alternative minimum tax.

*Nonqualified Stock Options.* In general, there are no tax consequences to the optionee or to the Company on the grant of a stock option which does not qualify as an incentive stock option (a Nonqualified Stock Option ). On exercise, however, the optionee generally will recognize ordinary income equal to the excess of the fair market value of the shares as of the exercise date over the purchase price paid for such shares, and the Company will be entitled to a deduction equal to the amount of ordinary income recognized by the optionee. Upon a subsequent disposition of the shares received under a nonqualified stock option, the difference between the amount realized on such disposition and the fair market value of the shares on the date of exercise generally will be treated as a capital gain or loss.

*Performance Awards and Stock Appreciation Rights.* Generally, the recipient of a Performance Award or a holder of stock appreciation rights will recognize ordinary income equal to the amount paid by the Company under either arrangement on the date the recipient or holder receives payment from the Company. If the Company places a limit on the amount that will be payable under stock appreciation rights, the holder may recognize ordinary income equal to the value of the holder's right under the stock appreciation rights at the time the value of such right equals such limit and the stock appreciation rights are exercisable. The Company will generally be entitled to a deduction in an amount equal to the ordinary income recognized by the recipient or holder.

*Restricted Stock.* Unless the recipient makes an a proper election under section 83(b) of the Code (an 83(b) Election ) within 30 days after the receipt of the restricted stock, the recipient is not taxed and the Company is not entitled to a deduction until the restriction lapses, and at that time the recipient will recognize ordinary income equal to the difference between the then fair market value of the Class A common stock and the amount, if any, paid by the recipient for the Class A common stock, and the recipient's tax basis in the Class A common stock will equal the then fair market value of the Class A common stock. If the recipient makes a timely 83(b) Election, the recipient will recognize ordinary income at the time of the election equal to the difference between the fair market value of the restricted stock on the date of grant and the amount, if any, paid by the recipient for the Class A common stock, and the recipient's tax basis in the Class A common stock will equal the fair market value of the Class A common stock on the grant date. Any subsequent sale of the Class A common stock by the recipient generally will, depending upon the length of the holding period beginning just after the date the restriction on the Class A common stock lapses or where an 83(b) Election is made just after the grant date, be treated as long- or short-term capital gain (loss) equal to the difference between the sale price (the recipient's tax basis) and the recipient's tax basis (sale price). The Company generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the recipient.

*Miscellaneous Tax Issues.* An award may be granted under the Stock Plan that does not fall clearly into one of the categories described above. The federal income tax treatment of such an award will depend upon the specific terms of such award. In such case, the recipient should consult his or her tax advisor regarding the tax treatment applicable to such award.

### **Company Withholdings and Information Reports**

If an award recipient is an employee of the Company, withholdings required to be made by the Company with respect to ordinary compensation income recognized under Stock Plan awards ordinarily will be accomplished by withholding the required amount from other cash compensation due from the Company to the employee, by having the employee pay to the Company the required withholding amount, or by such other permissible methods as the Company may deem appropriate. Whether or not such withholdings are required, the Company will make such information reports to the Internal Revenue Service as may be required with respect to any income (whether or not that of an employee) attributable to transactions involving awards.

### **New Plan Benefits**

The benefits that will be awarded or paid under the amended and restated Stock Plan cannot currently be determined. Awards granted under the Stock Plan are within the discretion of the Administering Body, and the Administering

Body has not determined future awards or who might receive them.

**SUPPLEMENT TO AMEND AND RESTATE TABLE OF BENEFICIAL OWNERSHIP**

The information under the heading, Security Ownership of Certain Beneficial Owners and Management, is amended and restated in its entirety as follows:

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our Class A and Class B common stock as of March 13, 2019 (unless otherwise indicated) by: (a) each person believed by us to be the beneficial owner of more than 5% of either class of the outstanding Class A or Class B common stock; (b) each Director; (c) each of the NEOs; and (d) all Directors and NEOs as a group.

Name and Address(1)	Class A Common Stock		Class B Common Stock		% Vote of All Classes  of Common Stock(2)
	Number	% Vote(2)	Number	% Vote(2)	
Stuart W. Epperson	3,576,924(3)	16.66%	2,776,848(4)	50.00%	40.71%
Nancy A. Epperson	3,576,924(3)	16.66%	2,776,848(4)	50.00%	40.71%
Edward G. Atsinger III	4,619,492(5)	21.52%	2,776,848(5)	50.00%	42.06%
Edward C. Atsinger	1,100,578(6)	5.13%			1.43%
Stuart W. Epperson Jr.	120,928(7)	*			*
Richard A. Riddle	128,891(8)	*			*
Jonathan Ververloh	62,000(9)	*			*
James Keet Lewis	11,500(10)	*			*
Eric Halvorson	17,300(11)	*			*
David P. Santrella	138,196(12)	*			*
David A.R. Evans	96,252(13)	*			*
Evan Masyr	122,724(14)	*			*
Christopher J. Henderson	116,559(15)	*			*
All Directors and NEOs as a group	10,111,344	47.10%	5,553,696	100.00%	85.25%
Gabelli Funds, LLC	1,397,530(16)	6.51%			1.81%
One Corporate Center Rye, NY 10580					
Dimensional Fund Advisors, L.P. 6300 Bee Cave Road, Building One Austin, TX 78746	1,261,538(17)	5.88%			1.64%

\* Less than 1%.

(1) Except as otherwise indicated, the address for each person is c/o Salem Media Group, Inc., 4880 Santa Rosa Road, Camarillo, California 93012. Calculated pursuant to Rule 13d-3(d) under the Exchange Act, shares of Class A common stock not outstanding that are subject to options exercisable by the holder thereof within 60 days of March 13, 2019, are deemed outstanding for the purposes of calculating the number and percentage ownership by such stockholder, but not deemed outstanding for the purpose of calculating the percentage owned by each other stockholder listed. Unless otherwise noted, all shares listed as beneficially owned by a stockholder

are actually outstanding.

- (2) Percentage voting power is based upon 20,632,416 shares of Class A common stock and 5,553,696 shares of Class B common stock all of which were outstanding as of March 13, 2019, plus shares of Class A common stock that are subject to options exercisable by holders within 60 days of March 13, 2019 and the general voting power of one (1) vote for each share of Class A common stock and ten (10) votes for each share of Class B common stock.
- (3) Includes 1,067,320 shares of Class A common stock held by trusts of which Mr. and Mrs. Epperson are trustees and shares held directly by Mr. and Mrs. Epperson. As husband and wife, Mr. and Mrs. Epperson are each deemed to be the beneficial owner of shares held by the other and share voting and dispositive

- power; therefore, their combined beneficial ownership is shown in the table. Includes 146,250 shares of Class A common stock subject to options that are exercisable within 60 days.
- (4) These shares of Class B common stock are held directly by Mr. Epperson.
  - (5) These shares of Class A and Class B common stock are held by trusts of which Mr. Atsinger is trustee. Includes 189,739 shares of Class A common stock subject to options that are exercisable within 60 days.
  - (6) Includes 1,090,078 shares of Class A common stock held in a trust for the benefit of Edward C. Atsinger, who is Edward G. Atsinger III's son. Edward G. Atsinger III is the trustee of the trust and these shares are also included in the shares beneficially owned by Edward G. Atsinger III as reflected in this table. Also includes 3,000 shares of Class A common stock held by a trust for the benefit of Edward C. Atsinger. Edward C. Atsinger and his wife are trustees of the trust. These 3,000 shares are not included in shares beneficially owned by Edward G. Atsinger III as reflected in this table. Includes 7,500 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (7) These shares of Class A common stock are held in custody for Mr. Epperson Jr.'s four (4) minor children. Includes 7,500 shares of Class A common stock subject to options that are exercisable within 60 days.
  - (8) Includes 27,000 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (9) 2,000 shares of Class A common stock are held directly by Mr. Venverloh and 33,000 shares of Class A common stock are held by Jonathan and Mehridith Venverloh as trustees of the Ecclesiastes Trust 2004 U/A 11/19/04. Also includes 27,000 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (10) Includes 9,500 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (11) 8,000 shares of Class A common stock are held directly by Mr. Halvorson in an IRA, 1,800 shares are held by a trust of which Mr. and Mr. Halvorson are trustees and 7,500 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (12) Includes 123,750 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (13) Includes 63,750 shares of Class A common stock subject to options that are exercisable within 60 days.
  - (14) Includes 110,500 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (15) Includes 32 shares held in Mr. Henderson's 401(k) plan and 116,527 shares of Class A common stock subject to stock options that are exercisable within 60 days.
  - (16) The ownership of common stock is based on information obtained from the National Association of Securities Dealers Automated Quotations ( NASDAQ ) as of December 31, 2018.
  - (17) This information is based on the Schedule 13G/A filed by Dimensional Fund Advisors, L.P. with the SEC on February 8, 2019.



**Appendix A**

**SALEM MEDIA GROUP, INC.  
1999 STOCK INCENTIVE PLAN  
(AS AMENDED AND RESTATED  
THROUGH MAY 8, 2019)**

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