

SALEM COMMUNICATIONS CORP /DE/  
Form DEF 14A  
April 24, 2006  
Table of Contents

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

SCHEDULE 14A INFORMATION

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  
 Definitive Proxy Statement

Confidential, for Use of the Commission

Only (as permitted by Rule 14a-6(e)(2))

Definitive Additional Materials  
 Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

SALEM COMMUNICATIONS CORPORATION

---

(Name of Registrant as Specified in Its Charter)

---

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

Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

---

Fee paid previously with preliminary materials.

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:



Table of Contents

**4880 Santa Rosa Road**

**Camarillo, CA 93012**

**(805) 987-0400**

April 24, 2006

Dear Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders (the Annual Meeting ) of Salem Communications Corporation ( Salem ). The Annual Meeting is scheduled to be held on Wednesday, May 24, 2006, at the Westlake Village Inn, 31943 Agoura Road, Westlake Village, California, at 9:30 a.m. local time. As described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement, the agenda for the Annual Meeting includes:

- (1) the annual election of eight Salem directors;
- (2) a proposal to amend Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan ) to: (a) eliminate the requirement that the re-pricing of options issued under the Plan be approved by the duly authorized vote of a majority of all outstanding Salem shares, and (b) permit Salem to make loans to qualified persons granted options under the Plan for the purpose of exercising granted options;
- (3) a proposal to re-approve the provision in the Plan establishing the maximum number of shares of Class A common stock available under awards to a single participant in any one calendar year; and
- (4) a proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2006.

The board of directors recommends that you vote **FOR** the election of the slate of director nominees, **FOR** the proposed amendment to the Plan, **FOR** the re-approval of the provision in the Plan establishing the maximum number of Class A common stock shares available for grant to an individual in any one calendar year, and **FOR** ratification of appointment of the recommended independent registered public accounting firm. Please refer to the Proxy Statement for detailed information on each of the proposals. Directors and executive officers of Salem will be present at the Annual Meeting to respond to questions that our stockholders may have regarding the business to be transacted.

**We urge you to vote your proxy as soon as possible.** Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, we urge you to sign, date and return the enclosed proxy card promptly in the accompanying postage prepaid envelope. You may, of course, attend the Annual Meeting and vote in person even if you have previously returned your proxy card. The approximate date on which this Proxy Statement and the enclosed proxy card are first being sent to stockholders is April 24, 2006.

Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

On behalf of the board of directors and all of the employees of Salem, we wish to thank you for your support.

Sincerely yours,

STUART W. EPPERSON

*Chairman of the Board*

EDWARD G. ATSINGER III

*President and Chief Executive Officer*

**If you have any questions concerning the Proxy Statement or the accompanying proxy card, or if you need any help in voting your shares, please telephone Jonathan L. Block of Salem at (805) 987-0400.**

**PLEASE SIGN, DATE AND RETURN  
THE ENCLOSED PROXY CARD TODAY.**

**Table of Contents**

**4880 Santa Rosa Road**

**Camarillo, CA 93012**

**(805) 987-0400**

---

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 24, 2006**

---

NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Stockholders (the Annual Meeting ) of Salem Communications Corporation ( Salem ) will be held on Wednesday, May 24, 2006, at the Westlake Village Inn, 31943 Agoura Road, Westlake Village, California, at 9:30 a.m. local time, subject to adjournment or postponement by the board of directors, for the following purposes:

1. To elect eight persons to the board of directors to serve until the next annual meeting of stockholders or until their respective successors are duly elected and qualified;
2. To amend Salem s Amended and Restated 1999 Stock Incentive Plan (the Plan ) to: (a) eliminate the requirement that the re-pricing of options issued under the Plan be approved by the duly authorized vote of a majority of all outstanding Salem shares, and (b) permit Salem to make loans to qualified persons granted options under the Plan for the purpose of exercising granted options;
3. To re-approve the provision in the Plan establishing the maximum number of shares of Class A common stock available under awards to a single participant in any one calendar year;
4. To ratify the selection of Ernst & Young LLP as Salem s independent registered public accounting firm for the fiscal year ending December 31, 2006; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Only holders of record of Salem s Class A common stock, par value \$0.01 per share, and Class B common stock, par value \$0.01 per share, on March 30, 2006, the record date, are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. A list of such stockholders will be available for examination by any stockholder at the time and place of the Annual Meeting.

**Holders of a majority of the voting power of the outstanding shares of the Class A common stock and of the Class B common stock must be present in person or by proxy in order for the Annual Meeting to be held. Therefore, we urge you to date, sign and return the**

**accompanying proxy card in the enclosed postage prepaid envelope whether or not you expect to attend the Annual Meeting in person. If you attend the Annual Meeting and wish to vote your shares personally, you may do so by validly revoking your proxy as described below.**

Prior to the voting thereof, a proxy may be revoked by the person executing such proxy by: (i) filing with the Secretary of Salem, prior to the commencement of the Annual Meeting, either a duly executed written notice dated subsequent to such proxy revoking the same or a duly executed proxy bearing a later date, or (ii) attending the Annual Meeting and voting in person.

If you plan to attend the Annual Meeting, we would appreciate your response by indicating so at the appropriate box on the enclosed proxy card.

By order of the board of directors

JONATHAN L. BLOCK

*Secretary*

Camarillo, California

April 24, 2006

**YOUR VOTE IS IMPORTANT.**

**TO VOTE YOUR SHARES, PLEASE SIGN AND DATE THE ENCLOSED PROXY  
CARD AND MAIL IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE.**

**Table of Contents**

**SALEM COMMUNICATIONS CORPORATION**

**4880 Santa Rosa Road**

**Camarillo, CA 93012**

**(805) 987-0400**

---

**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 24, 2006**



**Table of Contents****TABLE OF CONTENTS**

	<u>Page No.</u>
<u>INTRODUCTION</u>	1
<u>INFORMATION REGARDING VOTING AT THE ANNUAL MEETING</u>	1
<u>General</u>	1
<u>Record Date, Quorum and Voting</u>	2
<u>Solicitation</u>	2
<u>Householding</u>	2
<u>THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS</u>	3
<u>Board of Directors</u>	3
<u>Director Independence and Executive Sessions</u>	5
<u>Committees of the Board of Directors</u>	6
<u>Audit Committee</u>	6
<u>Compensation Committee</u>	6
<u>Nominating and Corporate Governance Committee</u>	7
<u>Board Meetings and Director Attendance at 2005 Annual Stockholder s Meeting</u>	8
<u>Compensation of Directors</u>	8
<u>Directors Fees</u>	8
<u>Stock Option Grants</u>	8
<u>Restricted Stock Grants</u>	8
<u>Employment and Consulting Agreements</u>	8
<u>Communications Between Stockholders and the Board</u>	8
<u>Financial Code of Conduct</u>	9
<u>Executive Officers</u>	9
<u>EXECUTIVE COMPENSATION AND OTHER INFORMATION</u>	11
<u>Summary Compensation Table</u>	11
<u>Stock Option Grants</u>	12
<u>Securities Authorized for Issuance Under Equity Compensation Plans</u>	13
<u>Employment Agreements</u>	13
<u>401(k) Plan</u>	14
<u>Compensation Committee Interlocks and Insider Participation</u>	14
<u>AUDIT COMMITTEE REPORT</u>	14
<u>COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION</u>	16
<u>STOCK PRICE PERFORMANCE GRAPH</u>	20
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	21
<u>RELATED PARTY TRANSACTIONS</u>	23
<u>Leases with Principal Stockholders</u>	23
<u>Leases with Both Messrs. Atsinger and Epperson</u>	23
<u>Lease with Mr. Atsinger</u>	23
<u>Radio Stations Owned by the Eppersons</u>	23
<u>Radio Stations Owned by Mr. Hinz</u>	24
<u>Truth for Life and Mr. Hinz and Mr. Weinberg</u>	24
<u>Split-Dollar Life Insurance</u>	24
<u>Transportation Services Supplied by Atsinger Aviation</u>	24
<u>Americans of Faith and Mr. Atsinger</u>	24
<u>Employment of Edward C. Atsinger</u>	25
<u>THE COMPANY S RELATIONSHIP WITH ITS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	25
<u>Principal Accountant Fees And Services</u>	25
<u>Audit Committee s Pre-Approval Policies And Procedures</u>	25

**Table of Contents**

	<u>Page No.</u>
<u>PROPOSAL 1</u>	25
<u>ELECTION OF DIRECTORS</u>	25
<u>Vote Required and Board of Directors Recommendation</u>	26
<u>PROPOSAL 2</u>	26
<u>AMENDMENT TO THE AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN</u>	26
<u>Vote Required and Board of Directors Recommendation</u>	27
<u>Summary of the 1999 Stock Incentive Plan</u>	27
<u>PROPOSAL 3</u>	35
<u>REAPPROVAL OF MAXIMUM ANNUAL STOCK AWARDS TO SINGLE PARTICIPANT IN AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN</u>	35
<u>Vote Required and Board of Directors Recommendation</u>	35
<u>PROPOSAL 4</u>	35
<u>RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	35
<u>Reasons for the Proposal</u>	35
<u>Vote Required and Board of Directors Recommendation</u>	36
<u>STOCKHOLDERS PROPOSALS FOR 2007 PROXY STATEMENT</u>	36
<u>OTHER MATTERS</u>	36
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	37
<u>ANNUAL REPORT ON FORM 10-K</u>	38
<u>APPENDIX A AUDIT COMMITTEE CHARTER</u>	A-1
<u>APPENDIX B AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN</u>	B-1

---

**Table of Contents**

**INTRODUCTION**

This Proxy Statement is furnished in connection with the solicitation by the board of directors (the board or the board of directors ) of Salem Communications Corporation, a Delaware corporation ( Salem or the Company ), of proxies for use at the 2006 Annual Meeting of Stockholders of the Company (the Annual Meeting ) scheduled to be held at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

**INFORMATION REGARDING VOTING AT THE ANNUAL MEETING**

**General**

At the Annual Meeting, the stockholders of the Company are being asked to consider and to vote upon the following proposals:

- |            |   |
|------------|---|
| Proposal 1 | The election of the eight directors nominated by the Company's board of directors to serve until the annual meeting of stockholders to be held in the year 2007 or until their respective successors are duly elected and qualified.  |
| Proposal 2 | To amend Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan ) to: (a) eliminate the requirement that the re-pricing of options issued under the Plan be approved by the duly authorized vote of a majority of all outstanding Salem shares, and (b) permit Salem to make loans to qualified persons granted options under the Plan for the purpose of exercising granted options. |
| Proposal 3 | The re-approval of the provision in the Plan establishing the maximum number of shares of Class A common stock available under awards to a single participant in any one calendar year.   |
| Proposal 4 | The ratification of the selection of Ernst & Young LLP as Salem's independent registered public accounting firm for the fiscal year ending December 31, 2006.   |

For information regarding these proposals, see the sections of this Proxy Statement entitled PROPOSAL 1 ELECTION OF DIRECTORS, PROPOSAL 2 AMENDMENT TO AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN, PROPOSAL 3 RE-APPROVAL OF MAXIMUM ANNUAL STOCK AWARDS TO SINGLE PARTICIPANT IN AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN, and PROPOSAL 4 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Shares represented by properly executed proxies received by the Company will be voted at the Annual Meeting in the manner specified therein or, if no instructions are marked on the enclosed proxy card, **FOR** each of the director nominees identified on such proxy card for such directors, **FOR** the proposed amendment to the Plan, **FOR** the re-approval of the provision in the Plan establishing the maximum number of Class A common stock shares available for grant to an individual in any one calendar year, and **FOR** ratification of appointment of the recommended independent registered public accounting firm, as the holder of such shares is entitled to vote. Although management does not know of any matter other than the four proposals described above to be acted upon at the Annual Meeting, unless contrary instructions are given, shares represented by valid proxies will be voted by the persons named on the accompanying proxy card in accordance with their respective best judgment in respect of any other matters that may properly be presented for a vote at the Annual Meeting.

Execution of a proxy will not in any way affect a stockholder's right to attend the Annual Meeting and vote in person, and any person giving a proxy has the right to revoke it at any time before it is exercised by: (i) filing with the Secretary of Salem, prior to the commencement of the

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

Annual Meeting, either a duly executed written notice dated subsequent to such proxy revoking the same or a duly executed proxy bearing a later date, or (ii) attending the Annual Meeting and voting in person.

The mailing address of the principal executive offices of the Company is 4880 Santa Rosa Road, Camarillo, California 93012, and its telephone number is (805) 987-0400.

## **Table of Contents**

### **Record Date, Quorum and Voting**

Only stockholders of record on March 30, 2006 (the Record Date), will be entitled to notice of and to vote at the Annual Meeting. There were outstanding on the Record Date 18,793,824 shares of Class A common stock, par value \$0.01 per share (Class A common stock), and 5,553,696 shares of Class B common stock, par value \$0.01 per share (Class B common stock) (the Class A common stock and the Class B common stock are collectively referred to as the common stock). Each share of outstanding Class A common stock is entitled to one vote on each matter to be voted on at the Annual Meeting and each share of outstanding Class B common stock is entitled to ten votes on each matter to be voted on at the Annual Meeting, except that, as provided in the Company's Amended and Restated Certificate of Incorporation, the holders of Class A common stock shall be entitled to vote as a class, exclusive of the holders of the Class B common stock, to elect two Independent Directors. The two Independent Directors shall be elected by a plurality of the votes of the shares of Class A common stock present in person or represented by proxy and entitled to vote on the election of the Independent Directors; the remaining six directors will be elected by a plurality of the votes of the shares of Class A common stock and Class B common stock present in person or represented by proxy and entitled to vote on the election of such directors. For information regarding the election of the Independent Directors, see the section of this Proxy Statement entitled PROPOSAL 1 ELECTION OF DIRECTORS.

The presence, in person or by proxy, of the holders of at least a majority of the voting power of the common stock issued and outstanding and entitled to vote is necessary to constitute a quorum at the Annual Meeting. In the event there are not sufficient votes for a quorum at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

Under Delaware law and the Company's Amended and Restated Certificate of Incorporation and Bylaws, abstentions and broker non-votes are counted for the purpose of determining the presence or absence of a quorum for the transaction of business. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. With regard to Proposals 2, 3 and 4, votes may be cast for, against or to abstain. Abstentions are counted in tabulations of the votes cast on proposals presented to stockholders other than the election of directors, thus having the effect of a negative vote, whereas broker non-votes are not counted for purposes of determining whether a proposal has been approved. Any stockholder proposals that properly come before the Annual Meeting require, in general, the affirmative vote of a majority of the voting power of the shares of Class A common stock and Class B common stock present, in person or represented by proxy, at the Annual Meeting and entitled to vote on the subject matter.

### **Solicitation**

The cost of preparing, assembling and mailing the Notice of Annual Meeting of Stockholders, this Proxy Statement and the enclosed proxy card will be paid by the Company. Following the mailing of this Proxy Statement, directors, officers and other employees of the Company may solicit proxies by mail, telephone, facsimile or other electronic means or by personal interview. Such persons will receive no additional compensation for such services. Brokerage houses and other nominees, fiduciaries and custodians nominally holding shares of Class A common stock of record will be requested to forward proxy soliciting material to the beneficial owners of such shares, and will be reimbursed by the Company for their reasonable charges and expenses in connection therewith.

### **Householding**

With regard to the delivery of Annual Reports and Proxy Statements, under certain circumstances the Securities and Exchange Commission (SEC) permits a single set of such documents to be sent to any household at which two or more stockholders reside if they appear to be members of the same family. Each stockholder, however, still receives a separate proxy card. This procedure, known as householding, reduces the amount

of duplicate information received at a household and reduces mailing and printing costs as well. A

**Table of Contents**

number of banks, brokers and other firms have instituted householding and have previously sent a notice to that effect to certain of the Company's stockholders whose shares are registered in the name of such bank, broker or other firm. As a result, unless the stockholders receiving such notice gave contrary instructions, only one Annual Report and/or Proxy Statement, as applicable, will be mailed to an address at which two or more stockholders reside. If any stockholder residing at such an address wishes to receive a separate Annual Report or Proxy Statement in the future, such stockholder should telephone toll-free 1-800-542-1061. In addition, if any stockholder who previously consented to householding desires to receive a separate copy of a Proxy Statement or Annual Report, as applicable, for each stockholder at his or her same address, such stockholder should contact his or her bank, broker or other firm in whose name the shares are registered or contact the Company at the address or telephone number listed on page 1 of this Proxy Statement. Similarly, a stockholder may use any of these methods if such stockholder is receiving multiple copies of a Proxy Statement or Annual Report and would prefer to receive a single copy in the future.

**THE BOARD OF DIRECTORS****Board of Directors**

The board of directors presently consists of eight members. The following table sets forth certain information as of April 24, 2006, except where otherwise indicated, with respect to the directors of the Company. Each of the directors of the Company serves a one-year term and all directors are subject to re-election at each annual meeting of stockholders.

<u>Name of Director</u>	<u>Age</u>	<u>First became Director of the Company</u>	<u>Position(s) held with the Company</u>
Stuart Epperson	69	1986	Chairman of the Board
Edward G. Atsinger	66	1986	President, Chief Executive Officer and Director
David Davenport	55	2001	Director
Eric H. Halvorson	57	1988	Director
Roland S. Hinz	67	1997	Director
Richard A. Riddle	61	1997	Director
Paul Pressler	75	2002	Director
Dennis M. Weinberg	53	2005	Director

Set forth below is certain information concerning the principal occupation and business experience of each of the directors during the past five years and other relevant experience.

**Stuart W. Epperson**

Mr. Epperson has been Chairman of the Board of Salem since its inception. He is also a director of Salem Communications Holding Corporation, a wholly-owned subsidiary of Salem. Mr. Epperson has been engaged in the ownership and operation of radio stations since 1961. In addition, he is a member of the board of directors of the National Religious Broadcasters. Mr. Epperson is married to Nancy A. Epperson who is Mr. Atsinger's sister.

**Edward G. Atsinger III**

Mr. Atsinger has been President, Chief Executive Officer and a director of Salem and a director of each of Salem's subsidiaries since their inception. He has been engaged in the ownership and operation of radio stations since 1969. Mr. Atsinger has been a member of the board of directors of the National Religious Broadcasters for a number of years; he was re-elected to a three-year term on that board in February 2004. Mr. Atsinger has also been a member of the board of directors of Oaks Christian School since 1999. Mr. Atsinger is also a member of Cornerstone Christian Network, which is involved in evangelism and church relations and development. Mr. Atsinger is the brother-in-law of Mr. Epperson.



## **Table of Contents**

### **David Davenport**

Mr. Davenport has been a director of Salem since November 2001. Mr. Davenport is a distinguished professor of public policy at Pepperdine University and has served in that position since August 2003. He is also a research fellow at the Hoover Institution and has served in that position since August 2001. Mr. Davenport was the Chief Executive Officer of Starwire Corporation, a software service company formerly known as Christianity.com, from June 2000 to May 2001. Mr. Davenport served as President of Pepperdine University from 1985 to 2000 and from 1980 through 1985 he served as a Professor of Law, General Counsel, and Executive Vice President of the University. Mr. Davenport currently serves on the governing or advisory boards of Hope Network Ministries, Forest Lawn Memorial Parks Association, Common Sense California and Inside Track Learning. Mr. Davenport also serves on the board of directors of Ameron International Corporation.

### **Eric H. Halvorson**

Mr. Halvorson has been a director of Salem since 1988. Mr. Halvorson is currently Executive in Residence and Visiting Professor of Business Management at Pepperdine University. Mr. Halvorson was President and Chief Executive Officer of The Thomas Kinkade Company from 2003 to 2005. Mr. Halvorson was also a Visiting Professor at Pepperdine University from 2000 to 2003. Mr. Halvorson was Chief Operating Officer of Salem from 1995 to 2000 and Executive Vice President of the Company from 1991 to 2000. From 1991 to 2000, Mr. Halvorson also served as General Counsel to the Company. Mr. Halvorson was the managing partner of the law firm of Godfrey & Kahn, S.C.-Green Bay from 1988 until 1991. From 1985 to 1988, he was Vice President and General Counsel of Salem. From 1976 until 1985, he was an associate and then a partner of Godfrey & Kahn, S.C.-Milwaukee. Mr. Halvorson was a Certified Public Accountant with Arthur Andersen & Co. from 1971 to 1973. Mr. Halvorson is a member of the board of directors of Intuitive Surgical, Inc.

### **Roland S. Hinz**

Mr. Hinz has been a director of Salem since September 1997. Mr. Hinz has been the owner, President and Editor-in-Chief of Hi-Torque Publishing Company, a publisher of magazines covering the motorcycling and biking industries, since 1982. Mr. Hinz is also the managing member of Hi-Favor Broadcasting, LLC, the licensee of radio stations KLTX-AM, Long Beach, California, and KEZY-AM, San Bernardino, California (which were acquired from Salem in August 2000 and December 2001, respectively), and radio station KSDO-AM, San Diego, California. Mr. Hinz also serves on the board of directors of the Association of Community Education, Inc. a not-for-profit corporation operating a Spanish Christian radio station in California. Mr. Hinz also serves on the board of directors of Truth for Life, a non-profit organization that is a customer of the Company.

### **Paul Pressler**

Judge Pressler has been a director of Salem since March 2002, and is also a board member of the Free Market Foundation and KHCB Network, a non-profit corporation which owns Christian radio stations in Texas and Louisiana, and a board member of National Religious Broadcasters. He has been an active leader in the Southern Baptist Convention and has served as its First Vice President. Additionally, he is a member of the Texas Philosophical Society and on the boards of various non-profit organizations. Since 2000, Judge Pressler has been a partner in the law firm of Woodfill & Pressler, a director of Revelation, Inc., and has been in private mediation practice for several years as well. A retired justice of the Texas Court of Appeals, Judge Pressler was appointed Justice of the Texas Court of Appeals in 1978, serving until 1992. Judge Pressler also served as District Judge from 1970 to 1978. From 1958 to 1970, he was associated with the law firm of Vinson & Elkins.

**Richard A. Riddle**

Mr. Riddle has been a director of Salem since September 1997. Mr. Riddle is an independent businessman specializing in providing financial assistance and consulting to individuals and manufacturing companies. He

## **Table of Contents**

was President and majority stockholder of I. L. Walker Company from 1988 to 1997 when that company was sold. He also was Chief Operating Officer and a major stockholder of Richter Manufacturing Corp. from 1970 to 1987.

### **Dennis M. Weinberg**

Mr. Weinberg has been director of Salem since November 1, 2005. Mr. Weinberg was one of the founding directors for Wellpoint, a health benefits company. From February of 2002 to March 2006, Mr. Weinberg served as President and Chief Executive Officer for ARCUS Enterprises, a Wellpoint business development subsidiary. Previously, Mr. Weinberg served for nearly 20 years in a variety of CEO, Group President, and Executive Vice President positions with Wellpoint and its various affiliates. Prior to Wellpoint, Mr. Weinberg held a variety of business consulting positions with the accounting firm of Touche-Ross and Company (currently Deloitte & Touche) in Chicago. Before that, he was general manager for the CTX Products Division of Pet, Inc. at the time, an I.C. Industries Company in St. Louis, Missouri, a designer and manufacturer of commercial computerized processing equipment. Weinberg is a General Member of the development companies of FRWII, LLC SkyView Development, LLC and Allyson Aviation, LLC. He is the co-founder of Cornerstone Network Associates, Life Skills for American Families and sits on the boards of Pepperdine Center for The Family, National Coalition for Protection of Families and Children, and is an advisor for the Pacific Justice Institute. Mr. Weinberg also serves on the board of directors of Truth for Life, a non-profit organization that is a customer of the Company.

### **Director Independence and Executive Sessions**

In November 2005, the Company's board of directors evaluated the independence of each of Salem's directors pursuant to standards set forth in the listing regulations of the National Association of Securities Dealers, Inc., as approved by the Securities and Exchanges Commission (NASDAQ Rules). During this review, the board of directors considered various transactions and relationships among directors (and their affiliates or family members), members of the Company's senior management, affiliates and subsidiaries of the Company and certain other parties that occurred during the past three fiscal years. This review was conducted to determine whether, under the NASDAQ Rules, any such relationships or transactions would affect the board of directors' determination as to each director's independence from management.

Upon conclusion of this review, the board of directors determined that, of the directors nominated for election at the Annual Meeting, a majority of the board (comprised of Messrs. Davenport, Halvorson, Hinz, Pressler, Riddle and Weinberg) is independent of Salem and its senior management as required by the NASDAQ Rules.

The NASDAQ Rules also require that independent members of the board of directors meet periodically in executive sessions during which only independent directors are present. The Company's independent directors have met separately in such executive sessions and in the future will regularly meet in executive sessions as required by the NASDAQ Rules.

**Table of Contents****Committees of the Board of Directors**

The Company's board of directors has three committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The following table identifies the independent members of the board of directors and lists the members and chairman of each of these committees:

<u>Name</u>	<u>Independent</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating and Corporate Governance Committee</u>
Stuart W. Epperson				
Edward G. Atsinger III				
David Davenport	I		X	X
Eric H. Halvorson	I	C		X
Roland S. Hinz	I		C	X
Judge Paul Pressler	I			C
Richard A. Riddle	I	X	X	X
Dennis M. Weinberg	I	X		X

**I = Director is independent**

**X = Current member of committee**

**C = Current member and chairman of the committee**

**Audit Committee**

The Audit Committee currently consists of Messrs. Halvorson (Chairman), Riddle and Weinberg, each of whom is independent under the NASDAQ Rules and applicable SEC rules and regulations. The board of directors has determined that Mr. Halvorson, the Audit Committee Chairperson, qualifies as an audit committee financial expert, as defined and required by applicable SEC rules and regulations.

The Audit Committee met six times in 2005 and operates under a written charter adopted by the board of directors, a copy of which is attached as appendix A hereto. This charter is also available on Salem's Internet website ([www.salem.cc](http://www.salem.cc)) and a copy of the charter may be obtained upon written request from the Secretary of the Company. Any information found on the Company's website is not a part of, or incorporated by reference into, this or any other report of the Company filed with, or furnished to, the SEC.

The Audit Committee's responsibilities are generally to assist the board in fulfilling its legal and fiduciary responsibilities relating to accounting, audit and reporting policies and practices of the Company and its subsidiaries. The Audit Committee also, among other things, oversees the Company's financial reporting process, retains and engages the Company's independent registered public accounting firm, approves the fees for the Company's independent registered public accounting firm, monitors and reviews the quality, activities and functions of the Company's independent registered public accounting firm, and monitors the adequacy of the Company's operating and internal controls and procedures as reported by management and the Company's independent registered public accounting firm. The Audit Committee Report set forth later in this Annual Report provides additional details about the duties and activities of this committee.

**Compensation Committee**

The Compensation Committee currently consists of Messrs. Hinz (Chairman), Davenport and Riddle, each of whom is independent under the NASDAQ Rules. The Compensation Committee is authorized to review and approve compensation, including non-cash benefits, and severance arrangements for the Company's senior officers and employees and to recommend to the board salaries, remuneration and other forms of additional compensation and benefits as it deems necessary. The Compensation Committee also administers the Company's Amended and Restated 1999 Stock Incentive Plan. The Compensation Committee Report set forth later in this Proxy Statement provides additional details concerning the committee's determination of compensation for the Company's senior management.

The Compensation Committee held four meetings in 2005. The Compensation Committee meets at least twice annually and at additional times as are necessary or advisable to fulfill all of its duties and responsibilities.

## **Table of Contents**

The board of directors has adopted a written charter for the Compensation Committee. This charter is available on Salem's Internet website ([www.salem.cc](http://www.salem.cc)) and a copy of the charter may be obtained upon written request from the Secretary of the Company. Any information found on the Company's website is not part of, or incorporated by reference into, this or any other report of the Company filed with, or furnished to, the SEC.

## **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee currently consists of Messrs. Pressler (Chairman), Davenport, Halvorson, Hinz, Riddle and Weinberg, each of whom is independent under the NASDAQ Rules. The committee met two times in 2005. The board has directed this committee to meet at least twice annually and at additional times as are necessary or advisable to fulfill all of its duties and responsibilities.

The board of directors has adopted a written charter for the Nominating and Corporate Governance Committee. This charter is available on Salem's Internet website ([www.salem.cc](http://www.salem.cc)) and a copy of the charter may be obtained upon written request from the Secretary of the Company. Any information found on the Company's website is not a part of, or incorporated by reference into, this or any other report of the Company filed with, or furnished to, the SEC.

The Nominating and Corporate Governance Committee is authorized to: (i) develop and recommend a set of corporate governance standards to the board of directors for adoption and implementation, (ii) identify individuals qualified to become members of the board of directors, (iii) recommend that director nominees be elected at the Company's next annual meeting of stockholders, (iv) recommend nominees to serve on each standing committee of the board of directors, (v) lead in the annual review of board performance and evaluation of the board's effectiveness, (vi) ensure that succession planning takes place for the position of chief executive officer and other key Company senior management positions, and (vii) analyze, review and, where appropriate, approve all related party transactions to which the Company or its subsidiaries or affiliates are a party, all in accordance with applicable rules and regulations.

To qualify as a nominee for service on the board of directors, a candidate must have sufficient time and resources available to successfully carry out the duties required of a Salem board member. The committee desires to attract and retain highly qualified directors who will diligently execute their responsibilities and enhance their knowledge of the Company's core businesses.

The Nominating and Corporate Governance Committee implements Salem's policy regarding stockholder nominations by considering nominees for director positions that are made by the Company's stockholders. Any stockholder desiring to make such a nomination must submit in writing the name(s) of the recommended nominees to the Secretary of the Company at least 90 days before the annual meeting of stockholders. The written submission must also contain biographical information about the proposed nominee, a description of the nominee's qualifications to serve as a member of the board of directors, and evidence of the nominee's valid consent to serve as a director of the Company if nominated and duly elected.

The Company's directors provide oversight of Salem's management and play a key role in shaping the strategic direction of the Company. Consistent with the Company's Nominating and Corporate Governance Charter, the Committee considers various criteria in board candidates, including, among others, independence, character, judgment and business experience, as well as their appreciation of the Company's core purpose, core values, and whether they have time available to devote to board activities. The Committee also considers whether a potential nominee would satisfy:

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

1. The criteria for director independence established by the NASD ( NASDAQ ); and
2. The SEC s definition of audit committee financial expert .

Whenever a vacancy exists on the board due to expansion of the board s size or the resignation or retirement of an existing director, the Committee identifies and evaluates potential director nominees. The Committee

## **Table of Contents**

considers recommendations of management, stockholders and others. The Committee has sole authority to retain and terminate any search firm to be used to identify director candidates, including approving its fees and other retention terms.

Director candidates are evaluated using the criteria described above and in light of the then-existing composition of the board, including its overall size, structure, backgrounds and areas of expertise of existing directors and the relative mix of independent and management directors. The committee also considers the specific needs of the various board committees. The committee recommends potential director nominees to the full board, and final approval of a candidate for nomination is determined by the full board. This evaluation process is the same for director nominees who are recommended by our stockholders.

The Nominating and Corporate Governance Committee did not receive any recommendations from stockholders proposing candidate(s) for election at the 2006 Annual Stockholders Meeting. None of the directors serving on the Audit Committee, the Compensation Committee, or the Nominating and Corporate Governance Committee are employees of the Company.

## **Director Attendance at Board Meetings and 2005 Annual Meeting of Stockholders**

The full board of directors held four meetings in 2005. During 2005, each of the Company's incumbent directors attended all of the meetings of the full board of directors and all meetings of the committees of the board of directors on which they served. The Company encourages, but does not require, that each director attend the annual meeting of stockholders. In 2005, each of the Company's incumbent directors as of May 18, 2005 attended the annual meeting of stockholders.

## **Compensation of Directors**

*Directors Fees.* Officers of Salem who also serve as directors do not receive compensation for their services as directors, other than the compensation they receive as officers of Salem. In 2005, directors of Salem who are not also officers or employees of Salem received a quarterly retainer of \$5,000 (this amount increased to \$6,250 effective as of October 1, 2005), \$2,500 for attending each regularly scheduled meeting of the board of directors, \$1,000 for attending each regularly scheduled meeting of any committee of the board of directors, and \$1,000 for acting as the chairperson of each regularly scheduled meeting of any committee of the board of directors. Directors of Salem are entitled to reimbursement of their reasonable out-of-pocket expenses in connection with their travel to and attendance at board and committee meetings.

*Stock Option Grants.* In return for their service, directors of Salem who are not also officers or employees of Salem were each granted options to purchase 1,000 shares of Salem's Class A common stock on September 7, 2005. All of these options vested immediately upon grant.

*Restricted Stock Grants.* Directors of Salem who are not also officers or employees of Salem were each granted 1,000 restricted shares of Salem's Class A common stock on September 7, 2005. Each such restricted grant prohibits the stockholder from selling any restricted shares until at least six (6) months following the date that the grant recipient ceases to serve as a member of Company's board of directors for any reason.



*Employment and Consulting Agreements.* Messrs. Atsinger and Epperson are employed as officers of Salem pursuant to Employment Agreements. For more information regarding the Employment Agreements, see EXECUTIVE COMPENSATION AND OTHER INFORMATION Employment Agreements.

**Communications Between Stockholders and the Board**

The Company has historically handled communications between stockholders and the board of directors on an *ad hoc* basis. No formal policy or process for such communications has been adopted by the Company as of

**Table of Contents**

the date of this Proxy Statement. The Company has, however, taken actions to ensure that the views of its stockholders are communicated to the board or one or more of its individual directors, as applicable. The board considers its responsiveness to such communications as timely and exemplary.

**Financial Code of Conduct**

The Company has adopted a Financial Code of Conduct that applies to each director and employee of Salem (including without limitation the Company's Chief Executive Officer, Executive Vice President Business Development/Chief Financial Officer, and Vice President Accounting and Finance). This Financial Code of Conduct has been adopted by the board as a code of ethics that satisfies applicable SEC requirements and NASDAQ Rules. The Financial Code of Conduct is available on Salem's Internet website ([www.salem.cc](http://www.salem.cc)) and a copy of the code may be obtained free of charge upon written request from the Secretary of the Company.

**Executive Officers**

Set forth below are the executive officers of the Company, together with the positions held by those persons as of April 24, 2006. The executive officers are elected annually and serve at the pleasure of the Company's board of directors; however, the Company has entered into Employment Agreements with Messrs. Atsinger, Epperson and Evans, which agreements are described under the section of this Proxy Statement entitled EXECUTIVE COMPENSATION AND OTHER INFORMATION Employment Agreements below.

<u>Name of Executive Officer</u>	<u>Age</u>	<u>Position(s) Held with the Company</u>
Stuart W. Epperson	69	Chairman of the Board
Edward G. Atsinger III	66	President, Chief Executive Officer and Director
Joe D. Davis	62	Executive Vice President and Chief Operating Officer
David A.R. Evans	43	Executive Vice President Business Development and Chief Financial Officer
Greg R. Anderson	59	President of SRN
James R. Cumbee	53	President of Non-Broadcast Media
Jonathan L. Block	39	Vice President, General Counsel and Secretary
Evan D. Masyr	34	Vice President Accounting and Finance

Set forth below is certain information concerning the business experience during the past five years and other relevant experience of each of the individuals named above (excluding Messrs. Atsinger and Epperson, whose business experience is described in the above section entitled THE BOARD OF DIRECTORS Board of Directors ).

**Joe D. Davis**

Mr. Davis has been Salem's Executive Vice President and Chief Operating Officer since March 2005. Prior to that time, he was Executive Vice President of Radio since 2003, Executive Vice President, Operations since 2001, Senior Vice President of Salem since 2000, Vice President, Operations of Salem since 1996 and General Manager of WMCA-AM since 1989. He served concurrently as General Manager of WWDJ-AM

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

since 1994. Previously he was President of Davis Eaton Corporation in Phoenix, Arizona and also served as Vice President and Executive Director of one of Salem's national ministry clients. He has been involved professionally in various aspects of broadcasting since 1967.

### **David A. R. Evans**

Mr. Evans has been Executive Vice President Business Development and Chief Financial Officer of Salem since September 2005. Mr. Evans was Executive Vice President and Chief Financial Officer from

## **Table of Contents**

September 2003 to September 2005. From 2000 to 2003, Mr. Evans served as the Company's Senior Vice President and Chief Financial Officer. From 1997 to 2000, Mr. Evans served as Senior Vice President and Managing Director-Europe, Middle East, and Africa of Warner Bros. Consumer Products in London, England. He also served at Warner Bros. Consumer Products in Los Angeles, California, as Senior Vice President-Latin America, International Marketing, Business Development from 1996 to 1997 and Vice President-Worldwide Finance, Operations, and Business Development from 1992 to 1996. From 1990 to 1992, he served as Regional Financial Controller-Europe for Warner Bros. based in London, England. Prior to 1990, Mr. Evans was an audit manager with Ernst & Young LLP in Los Angeles, California and worked as a U.K. Chartered Accountant for Ernst & Young in London, England.

### **Greg R. Anderson**

Mr. Anderson has been President of Salem Radio Network since 1996. From 1993 to 1994, Mr. Anderson was the Vice President-General Manager of this network. Mr. Anderson was employed by Multimedia, Inc. from 1980 to 1993. After serving as General Manager at Multimedia stations in Greenville, South Carolina, Shreveport, Louisiana and Milwaukee, Wisconsin, he was named Vice President, Operations, of the Multimedia radio division in 1987 and was subsequently appointed as Executive Vice President and group head of Multimedia's radio division.

### **James R. Cumbee**

Mr. Cumbee has been the President of Non-Broadcast Media of Salem since January 2000. He was the President of Reach Satellite Network, Inc. in Nashville, Tennessee from 1996 through 1999. Salem purchased all of the shares of Reach Satellite Network, Inc. in March 2000. From 1994 to 1996, he served as Vice President of Disney Vacation Development Company.

### **Jonathan L. Block**

Mr. Block has been General Counsel of Salem since May 2000, Vice President since 1999 and Corporate Secretary since 1997. Since August 2000, Mr. Block has been a director of each subsidiary of Salem other than Salem Communications Holding Corporation. From 1995 to 2000, Mr. Block served as Associate General Counsel of Salem. Since May 2005, Mr. Block has been a director of Alaska National Corporation and its subsidiary Alaska National Insurance Company, a property and casualty insurance company.

### **Evan D. Masyr**

Mr. Masyr has been Vice President Accounting and Finance since September 2005. From March 2004 to September 2005, Mr. Masyr was Vice President of Accounting and Corporate Controller. Prior to that time, Mr. Masyr was Vice President and Corporate Controller from January 2003 to March 2004. From February 2000 to December 2002, he served as Controller. From 1993 to February 2000, Mr. Masyr worked for PricewaterhouseCoopers LLP (formerly, Coopers & Lybrand LLP). Mr. Masyr has been a Certified Public Accountant since 1995.

**Table of Contents****EXECUTIVE COMPENSATION AND OTHER INFORMATION****Summary Compensation Table**

The following table sets forth all compensation paid by the Company for 2005, 2004 and 2003 to the Company's Chief Executive Officer and the other four highest paid executive officers of the Company serving as of December 31, 2005 (the "Named Executive Officers").

Name and Principal Positions	Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options (#)	All Other Compensation
Edward G. Atsinger III President, Chief Executive Officer and Director	2005	\$ 850,000	\$ 501,750	\$	91,515	\$ 54,869(1)
	2004	775,000	257,558		424,850	45,910(1)
	2003	700,000				44,016(1)
Stuart W. Epperson Chairman of the Board	2005	700,000	167,250		38,838	48,629(2)
	2004	650,000	185,442		317,892	39,633(2)
	2003	600,000				37,739(2)
Joe D. Davis Executive Vice President and Chief Operating Officer	2005	343,750	120,000	59,805	38,000	4,725(3)
	2004	328,600	75,000		1,025	4,009(3)
	2003	329,215				3,500(3)
David A.R. Evans Executive Vice President Business Development and Chief Financial Officer	2005	363,333	120,000		108,000	4,725(3)
	2004	318,548	66,500		5,539	4,613(3)
	2003	298,548	20,000		106,800	3,000(3)
Robert C. Adair Senior Vice President, Operations	2005	311,581	75,000	9,651	5,000	4,725(3)
	2004	313,748	60,000			4,613(3)
	2003	308,700			6,800	3,100(3)

- (1) Represents imputed income in connection with amounts paid by Salem for split-dollar life insurance covering the lives of Mr. Atsinger and his spouse, such policy owned by Salem as of December 31, 2005 (See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS - Split-Dollar Life Insurance" for further information). For each year, such imputed income represents the interest-free use of the aggregate periodic contributions made by Salem towards premium payments under the split-dollar life insurance arrangements. Salem contributed approximately \$67,000, \$113,000 and \$115,000 in 2003, 2004 and 2005, respectively, towards such premium payments.
- (2) Represents imputed income in connection with amounts paid by Salem for split-dollar life insurance covering the lives of Mr. Epperson and his spouse, such policy owned by Salem as of December 31, 2005 (See "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS - Split-Dollar Life Insurance" for further information). For each year, such imputed income represents the interest-free use of the aggregate periodic contributions made by Salem towards premium payments under the split-dollar life insurance arrangements. Salem contributed approximately \$67,000, \$113,000 and \$115,000 in 2003, 2004 and 2005, respectively, towards such premium payments.
- (3) Represents employer matching contributions to individuals' 401(k) accounts.

**Table of Contents****Stock Option Grants**

The following table sets forth information regarding grants of stock options under the Amended and Restated 1999 Stock Incentive Plan by the Company during 2005 to Named Executive Officers.

	Individual Grants				Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares of Class A Common Stock Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise of Base Price (\$/SH)	Expiration Date	5%(\$)	10%(\$)
Edward G. Atsinger III	41,515	8.5%	\$ 22.70	5/18/2010	260,365	575,339
	12,500	2.6%	\$ 16.75	5/18/2011	71,208	161,546
	12,500	2.6%	\$ 16.75	5/18/2012	58,237	198,638
	12,500	2.6%	\$ 16.75	5/18/2013	99,937	239,439
	12,500	2.6%	\$ 16.75	5/18/2014	115,434	284,320
Stuart W. Epperson	13,838	2.8%	\$ 22.70	5/18/2010	86,786	191,775
	6,250	1.3%	\$ 16.75	5/18/2011	35,604	80,773
	6,250	1.3%	\$ 16.75	5/18/2012	42,618	99,319
	6,250	1.3%	\$ 16.75	5/18/2013	49,984	119,719
	6,250	1.3%	\$ 16.75	5/18/2014	57,717	142,160
Joe D. Davis	5,000	1.0%	\$ 22.70	5/18/2010	31,358	69,293
	750	0.2%	\$ 16.75	5/18/2011	4,272	9,693
	750	0.2%	\$ 16.75	5/18/2012	5,114	11,918
	750	0.2%	\$ 16.75	5/18/2013	5,998	14,366
	750	0.2%	\$ 16.75	5/18/2014	6,926	17,059
	7,500	1.5%	\$ 19.37	11/9/2011	49,407	112,089
	7,500	1.5%	\$ 19.37	11/9/2012	59,142	137,825
	7,500	1.5%	\$ 19.37	11/9/2013	69,362	166,135
	7,500	1.5%	\$ 19.37	11/9/2014	80,094	197,276
David A.R. Evans	5,000	1.0%	\$ 22.70	5/18/2010	31,358	69,293
	750	0.2%	\$ 16.75	5/18/2011	4,272	9,693
	750	0.2%	\$ 16.75	5/18/2012	5,114	11,918
	750	0.2%	\$ 16.75	5/18/2013	5,998	14,366
	750	0.2%	\$ 16.75	5/18/2014	6,926	17,059
	12,500	2.6%	\$ 19.02	9/1/2011	80,858	183,439
	12,500	2.6%	\$ 19.02	9/1/2012	96,788	225,557
	12,500	2.6%	\$ 19.02	9/1/2013	113,515	271,888
	12,500	2.6%	\$ 19.02	9/1/2014	131,078	322,852
	12,500	2.6%	\$ 19.02	9/1/2015	149,520	378,912
	12,500	2.6%	\$ 19.02	9/1/2016	168,883	440,578
	12,500	2.6%	\$ 19.02	9/1/2017	189,215	508,411

Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

	12,500	2.6%	\$ 19.02	9/18/2018	210,563	583,027
Robert Adair	1,250	0.3%	\$ 16.75	5/18/2011	7,121	16,155
	1,250	0.3%	\$ 16.75	5/18/2012	8,524	19,864
	1,250	0.3%	\$ 16.75	5/18/2013	9,997	23,944
	1,250	0.3%	\$ 16.75	5/18/2014	11,543	28,432

**Table of Contents****2005 Option Exercises and Year-End Values**

The following table provides information on options exercised during 2005 by the Named Executive Officers and unexercised options held by such persons at December 31, 2005.

Name	Option Exercises During 2005		Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End \$(1)	
	Shares Acquired on Exercise (#)	Value Realized (\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Edward G. Atsinger III	0	0	348,031	183,334	\$	\$
Stuart W. Epperson	0	0	242,230	125,000		18,500
Joe D. Davis	0	0	29,775	51,750	42,581	2,220
David A.R. Evans	0	0	84,934	208,000	178,472	2,220
Robert Adair	0	0	3,250	7,000	4,988	3,700

(1) Represents the spread between the aggregate exercise price and assumed aggregate market value using the closing price of the Company's Common Stock on the Nasdaq National Market on December 31, 2005 (\$17.49).

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information as of December 31, 2005 with respect to shares of our Class A common stock that may be issued under the Amended and Restated 1999 Stock Incentive Plan, our only existing equity compensation plan. The Amended and Restated 1999 Stock Incentive Plan was adopted by our board of directors and approved by our stockholders on May 25, 1999. On March 20, 2003, the board of directors approved an amendment to the Amended and Restated 1999 Stock Incentive Plan to reserve an additional 600,000 shares of the Company's Class A common stock for issuance under the plan. The amendment was approved by a vote of the stockholders at the Company's annual meeting of stockholders held on June 11, 2003. On November 10, 2004 the Company's stockholders approved an amendment to the Amended and Restated 1999 Stock Option Plan to reserve an additional 1,500,000 shares of the Company's Class A common stock for issuance under the plan. The amendment was approved by a vote of the stockholders at the Company's annual meeting of stockholders held on May 18, 2005.

Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options, warrants and rights	Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))



	<u>warrants and rights</u>		
	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
Equity compensation plans approved by security holders	1,924,269	\$ 23.82	992,131
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>1,924,269</b>	<b>\$ 23.82</b>	<b>992,131</b>

### Employment Agreements

Edward G. Atsinger III and Stuart W. Epperson entered into separate employment agreements with Salem effective as of July 1, 2004, pursuant to which Mr. Atsinger serves as President and Chief Executive Officer and Mr. Epperson serves as Chairman of the Board. The employment term under each agreement expires June 30, 2007. Pursuant to the employment agreements, each of Messrs. Atsinger and Epperson will be paid an annual base salary and an annual bonus determined at the discretion of the board of directors. Effective as of July 1,

## **Table of Contents**

2004, the annual base salary payable increased to \$850,000 from \$700,000 for Mr. Atsinger and to \$700,000 from \$600,000 for Mr. Epperson. The employment agreements each provide that, in the event of a termination of employment by Salem without cause (or a constructive termination by Salem) during the term of employment, Salem will pay a severance benefit in the form of salary continuation payments for the longer of six months or the remainder of the initial term, plus accrued bonus through the date of termination. Following the initial term of employment, a termination of employment by Salem without cause (or a constructive termination by Salem) or a failure by Salem to renew the initial or any subsequent term of employment for an additional annual term would entitle Messrs. Atsinger and Epperson to three months of severance plus accrued bonus through the date of termination.

Additionally, the employment agreements with Messrs. Atsinger and Epperson provide Salem with a right of first refusal on corporate opportunities, which includes acquisitions of radio stations in any market in which Salem is interested, and includes a noncompete provision for a period of two years from the cessation of employment with Salem and a nondisclosure provision which is effective for the term of the employment agreements and indefinitely thereafter.

David A.R. Evans entered into an employment agreement with Salem effective September 1, 2005, pursuant to which he serves as Executive Vice President Business Development and Chief Financial Officer of Salem. Effective as of September 1, 2005, his annual salary was \$430,000. Effective as of September 1, 2006 his annual salary will increase to \$450,000. Effective as of September 1, 2007 his annual salary will increase to \$475,000. His employment agreement expires on August 31, 2008. The employment agreement provides that, in the event of a termination of Mr. Evans employment without cause, he is entitled to receive a severance benefit in an amount equal to the base salary Mr. Evans would otherwise have received for nine months plus professional outplacement assistance for twelve consecutive months.

## **401(k) Plan**

The Company adopted a 401(k) savings plan in 1993 for the purpose of providing, at the option of the employee, retirement benefits to full-time employees of the Company and its subsidiaries. Participants are allowed to make nonforfeitable contributions to the savings plan of up to 60% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The Company currently matches 50% on the first 3% of the amounts contributed by each participant and 25% of the next 3% contributed but does not match participants contributions in excess of 6% of their compensation per pay period. Prior to January 1, 2003, the Company matched 25% of the amounts contributed by each participant but did not match participants contributions in excess of 6% of their compensation per pay period. The Company made contributions of \$1.2 million to the 401(k) savings plan during 2005.

## **Compensation Committee Interlocks and Insider Participation**

The Company's Compensation Committee consists of Messrs. Hinz (Chairman), Riddle and Davenport. No member is, or formerly was, an officer or employee of the Company or any of its subsidiaries and none had any relationship with the Company requiring disclosure herein under applicable rules. In addition, to the Company's knowledge, no executive officer or director of Salem has served as a director or a member of the compensation committee of another entity that requires disclosure herein under applicable rules.

## **AUDIT COMMITTEE REPORT**

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

This Audit Committee Report shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission ( SEC ), nor shall any information in this report be incorporated by reference by any general statement into any past or future filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that Salem Communications Corporation and

## Table of Contents

its subsidiaries (the Corporation) specifically incorporates this information by reference into such filing, and shall not otherwise be deemed filed under such Acts.

The purpose of the Audit Committee (the Committee) is to oversee, on behalf of the entire board of directors of the Corporation (the Board): (a) the accounting and financial reporting processes of the Corporation, (b) the audits of the Corporation's financial statements, (c) the qualifications of the public accounting firm engaged as the Corporation's independent auditor to prepare or issue an audit report on the financial statements of the Corporation, and (d) the performance of the Corporation's internal and independent auditors.

The Committee has adopted, and annually reviews, a charter outlining the practices it follows. The charter complies with all current regulatory requirements, including requirements pertaining to the NASDAQ listing standards definitions, provisions and applicable exceptions concerning the independence of audit committee members.

In 2005, the Committee held six meetings, four of which were regularly scheduled and two of which were held telephonically. The Committee's meeting agendas are established by the Committee chairman based upon the Committee's charter and an annual meeting planner approved by the entire Committee. At each of these meetings, the Committee met with the senior members of the Corporation's financial management team and General Counsel. Additionally, the Corporation's internal auditor and independent auditors met with the full Committee at two of the six meetings and the full Committee met in executive session with the Corporation's internal auditors at one meeting. Prior to each regularly scheduled meeting, the Chairman of the Committee also met privately with the Corporation's independent auditors and, separately, with the Corporation's internal auditor, at which times candid discussions of financial management, accounting and internal control issues took place.

The Committee appointed Ernst & Young LLP as the Corporation's independent auditors for the year ending December 31, 2006, and reviewed with the Corporation's financial managers, the independent auditors, and the Corporation's internal auditor, overall audit scopes and plans, the results of internal and external controls and the quality of the Corporation's financial reporting. Although the Committee has the sole authority to appoint the independent auditor, the Committee will continue its established practice of recommending that the Board ask the Corporation's stockholders, at their annual meeting, to approve the Committee's selection of the independent auditors.

The Corporation's management is primarily responsible for the preparation, presentation, and integrity of the Corporation's financial statements, accounting and financial reporting principles, internal controls, and procedures designed to ensure compliance with accounting standards, applicable laws, and regulations. As the Corporation's independent auditors, Ernst & Young LLP is responsible for performing an independent audit of the Corporation's consolidated financial statements in accordance with generally accepted accounting standards and for expressing an opinion on the conformity of the audited financial statements to accounting principles generally accepted in the United States of America.

The Committee has reviewed and discussed with management the Corporation's audited financial statements as of and for the year ended December 31, 2005. The Committee has also discussed with the independent auditors the matters required to be discussed by: (a) the Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90 (regarding Communications with Audit Committees), and as further amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants, and (b) Securities and Exchange Commission (SEC) Regulation S-X, Rule 2-07.

The Committee has received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as amended, by the Independence Standards Board, and the Committee has discussed with the



**Table of Contents**

independent auditors that firm's independence from the Corporation and its management. The Committee has also considered whether the independent auditors' provision of non-audit services to the Corporation is compatible with the auditor's independence.

Based on the Committee's reviews and discussions referred to above, the Committee recommended to the Board that the audited consolidated financial statements referred to above be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, to be filed with the SEC.

The Audit Committee is currently comprised of Eric H. Halvorson, Chairman, Richard A. Riddle and Dennis M. Weinberg.

AUDIT COMMITTEE

Eric H. Halvorson, Chairman

Richard A. Riddle

Dennis M. Weinberg

March 14, 2006

**Compensation Committee**

The Company's compensation program is administered by the Compensation Committee of the board of directors, which is comprised of three outside, non-employee directors. Following review and approval by the Compensation Committee, issues pertaining to compensation benefits and severance arrangements for the Company's executive officers and other key employees are submitted to the full board of directors for approval.

The following is the Compensation Committee report addressing the compensation of the Company's executive officers and other key employees for the 2005 fiscal year.

**COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION**

This Compensation Committee Report shall not be deemed soliciting material or to be filed with the SEC, nor shall any information in this report be incorporated by reference by any general statement into any past or future filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Corporation specifically incorporates this information by reference into such filing, and shall not otherwise be deemed filed under such Acts.

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

The Compensation Committee (the Committee) of the Board of Directors of Salem Communications Corporation (the Corporation) is currently comprised of Roland S. Hinz, David Davenport and Richard A. Riddle, each an independent director. The Committee is responsible for establishing the Corporation's compensation programs for its executive officers and key employees, and administering the Corporation's stock option incentive plan. For executive officers and key employees, the Committee evaluates performance and determines compensation policies and levels.

### **Compensation Philosophy and Policy**

The compensation philosophy of the Committee is to motivate the Corporation's executive officers and key management employees to attain financial, operational and strategic objectives through a competitive compensation program while also aligning the financial goals of such executives and management with those of the Corporation's stockholders. In administering the program, the Committee assesses the performance of the Corporation's business and employees relative to those objectives. The Committee also considers the performance of the Corporation's business as compared to the performance of its competitors. To ensure that pay

## **Table of Contents**

is competitive, the Committee regularly compares its pay practices with those of the Corporation's competitors and sets pay parameters based on this review.

The Committee's compensation program generally provides incentives to achieve both annual and longer-term objectives. The principal elements of the compensation plan include base salary, cash incentive bonus awards and stock awards in the form of grants of stock options and restricted common stock. These elements generally are blended in order to implement the Committee's compensation philosophy.

Accordingly, the following principles are inherent in all of the Committee's considerations regarding compensation:

1. In order to attract and retain highly qualified and experienced personnel necessary to fulfill the Corporation's objectives, Salem must offer competitive compensation, including a competitive base salary, incentive cash bonuses and stock-based incentives;
2. Cash compensation in excess of an employee's base salary should be tied to the individual's performance, the performance of the business unit for which the employee is responsible and the overall performance of the Corporation; and
3. The financial interests of the executive officers and key employees of the Corporation should be closely aligned with the financial interests of the Corporation's stockholders.

### **Base Salary**

Base salaries of executive and key management employees are determined in respect of comparable salaries by other employers in the radio broadcasting and similar industries. The salaries of all executive officers and key management employees except the Chairman and Chief Executive Officer (CEO) are determined through mutual negotiations between the executive and the CEO, with the approval of the Committee, and are based on both past performance and expected future performance.

In setting base salaries for executive officers and key management employees, the Committee also considers the experience of the individual, the scope and complexity of the position, the Corporation's size and growth rate and the compensation paid by the Corporation's competitors. Due to the increasingly competitive nature of the radio industry, compensation amounts paid by the Corporation's competitors are expected to continue to grow in importance as the Committee assesses its future compensation structure to ensure the Corporation's ability to continue to attract and retain highly qualified executives.

### **Cash Incentive Bonuses**

All of the Corporation's executive officers are eligible to receive bonuses that are determined after a review of Corporation performance. In 2005, Edward G. Atsinger III, CEO, and each of the Corporation's four highest paid executive officers serving as of December 31, 2005 (including Stuart W. Epperson, Chairman) (the "Named Executive Officers"), received discretionary bonuses determined by the Committee as described in the Summary Compensation Table section of this Proxy Statement.



**Stock Awards**

To promote the Corporation's long-term objectives and to more closely align the interests of key members of Salem's management to that of our stockholders, stock awards are periodically made by the Committee. These stock awards are granted to employees of the Corporation and employees of subsidiaries of the Corporation (including employees who are officers or directors), non-employee directors of the Corporation and certain advisors and consultants who are in a position to make a significant contribution to the Corporation's long-term success. The stock awards are made pursuant to Salem's Amended and Restated 1999 Stock Incentive Plan,

## **Table of Contents**

which permits the award of incentive stock options, nonqualified stock options and restricted stock awards. The Committee has the authority to determine the individuals that shall be given awards and the terms of such awards.

In 2005, the Corporation granted to the Named Executive Officers options for the purchase of Class A common stock as compensation for management's performance during 2004 as more specifically described in the section of this Proxy Statement entitled "Stock Option Grants." With the exception of those certain stock options that vested immediately upon grant as specifically described in the "Stock Option Grants" section of this Proxy Statement, the majority of all remaining stock options granted to executive officers and key employees during 2005 vest over several years. This deferred vesting is designed to increase stockholder value over a longer term because the full benefit of an executive's compensation cannot be realized unless a stock price appreciation occurs over a number of years. All stock options granted during 2005 have an exercise price equal to or exceeding the fair market price of the Class A common stock on the date of the grant.

In 2005, the Corporation also granted to several of its directors one thousand (1,000) shares of restricted Class A common stock as compensation for their services as more specifically described in the section of this Proxy Statement entitled "Restricted Stock Grants."

## **Chairman's and Chief Executive Officer's Compensation**

In 2004, the Committee approved Employment Agreements with Stuart W. Epperson, Chairman of the Board, and Edward G. Atsinger III, CEO, following the principles set forth above. These Employment Agreements commenced on July 1, 2004, replacing existing agreements that expired on June 30, 2004. The new agreements are scheduled to expire on June 30, 2007.

The Committee considered a number of specific factors in determining Mr. Epperson's and Mr. Atsinger's total compensation for 2005, including without limitation: (a) the key role played by both of them in achieving favorable financial results for the Corporation in an uncertain economic environment, and (b) comparable compensation packages and employment agreements within the Corporation's peer group.

### *Base Salary*

Mr. Epperson's base salary for the period of January 1, 2005, through December 31, 2005, was paid at the rate of \$700,000 annually. Mr. Atsinger's base salary for the period of January 1, 2005, through December 31, 2005, was paid at the rate of \$850,000 annually.

### *Cash Incentive Bonus*

On March 9, 2005, Mr. Atsinger was awarded an incentive cash bonus of \$501,750 and Mr. Epperson was awarded an incentive cash bonus of \$167,250. These bonuses, while paid in 2005, rewarded the performance of the CEO and Chairman in assisting the Corporation to achieve favorable financial results in 2004.

*Stock Awards*

The Committee also granted stock options to Messrs. Epperson and Atsinger in 2005 to reward the performance of the CEO and Chairman in assisting the Corporation to achieve favorable financial results in 2004. Mr. Epperson was granted a total of 38,838 options as follows: (a) 13,838 immediately vested options conditionally granted on March 9, 2005, subject to stockholder approval of an amendment to the Corporation's 1999 Stock Incentive Plan, as amended, which approval was granted by the Corporation's stockholders on May 18, 2005, and (b) 25,000 additional options in May 2005, of which 6,250 were immediately vested with the remaining 18,750 to vest in equal installments in May 2006, May 2007 and May 2008, respectively. Mr. Atsinger was granted a total of 91,515 options as follows: (a) 41,515 immediately vested options conditionally granted on

## **Table of Contents**

March 9, 2005, subject to stockholder approval of an amendment to the Corporation's 1999 Stock Incentive Plan, as amended, which approval was granted by the Corporation's stockholders on May 18, 2005, and (b) 50,000 additional options in May 2005, of which 12,500 were immediately vested and the remaining 37,500 to vest in equal installments in May 2006, May 2007 and May 2008, respectively. All stock options granted in 2005 to Mr. Epperson and Mr. Atsinger have an exercise price equal to or exceeding the fair market price of the Corporation's Class A common stock on the date of the grant.

## **Tax Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), imposes limitations upon the federal income tax deductibility of compensation paid to the Corporation's chief executive officer and to each of the Corporation's other four most highly compensated executive officers. Under these limitations, the Corporation may deduct such compensation only to the extent that during any year the compensation paid to any such officer does not exceed \$1,000,000 or meets certain specified conditions (such as certain performance-based compensation that has been approved by the Corporation's stockholders). Based on the Corporation's current compensation plans and policies and proposed regulations interpreting the Internal Revenue Code, the Committee believes that, for the near future, there is not a significant risk that the Corporation will lose any significant tax deduction for executive compensation. The Corporation's compensation plans and policies may be modified if the Committee determines that such an action is in the best interests of the Corporation's stockholders.

## **Conclusion**

Through the plans described above, a significant portion of the Corporation's compensation programs (including the compensation of Edward G. Atsinger, III and Stuart W. Epperson) are contingent on the Corporation's performance, and realization of benefits is closely linked to increases in long-term stockholder value. The Committee remains committed to this philosophy of pay for performance, recognizing that the competitive market for talented executives may result in highly variable compensation for a particular time period.

## **COMPENSATION COMMITTEE**

Roland S. Hinz (Chairman)

David Davenport

Richard A. Riddle

March 15, 2006

**Table of Contents**

**STOCK PRICE PERFORMANCE GRAPH**

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return of the NASDAQ NMS equity index and the Bloomberg Broadcast and Cable Radio Index for a five year period commencing December 31, 2000 and ending December 31, 2005. The Company's Class B common stock is not publicly traded and is not registered. The graph assumes that the value of an investment in the Company's Class A common stock and each index was \$100 on December 31, 2000 and that any dividends were reinvested. No cash dividends have been declared on the Company's Class A common stock since the Company's initial public offering. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

*The stock price performance graph above shall not be deemed incorporated by reference by any general statement incorporating by reference this report into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference and shall not otherwise be deemed filed under such Acts.*

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of the Company's Class A and Class B common stock as of March 30, 2006 (unless otherwise indicated) by (i) each person believed by the Company to be the beneficial owner of more than 5% of either class of the outstanding Class A or Class B common stock, (ii) each director, (iii) each of the Named Executive Officers and (iv) all directors and executive officers as a group.

Name and Address(1)	Class A Common Stock		Class B Common Stock		Votes of All Classes of Common Stock(2)
	Number	% Vote(2)	Number	% Vote(2)	
Stuart W. Epperson	4,156,786(3)	21.83%	2,776,848(4)	50.00%	42.81%
Nancy A. Epperson	2,834,656(3)	15.08%	2,776,848(4)	50.00%	41.17%
Edward G. Atsinger III	4,313,261(5)	22.52%	2,776,848(5)	50.00%	42.95%
Edward C. Atsinger	1,093,078(6)	5.82%		*	1.47%
Robert C. Adair	4,900(7)	*		*	*
David Davenport	9,500(8)	*		*	*
Joe D. Davis	34,025(9)	*		*	*
David A.R. Evans	91,484(10)	*		*	*
Eric H. Halvorson	14,500(11)	*		*	*
Roland S. Hinz	85,227(12)	*		*	*
Dennis M. Weinberg	9,800	*		*	*
Paul Pressler	9,500(13)	*		*	*
Richard A. Riddle	70,867(14)	*		*	*
Columbia Wanger Asset Management, L.P. 227 West Monroe St., Suite 3000 Chicago, IL 60606	3,366,700(15)	17.80%		*	4.52%
FMR Corp. 82 Devonshire Street Boston, MA 02109	2,757,256(16)	14.57%		*	3.70%
All directors and executive officers as a group (14 persons)	8,857,170	45.10%	5,553,696	100.00%	85.65%

\* Less than 1%.

- Except as otherwise indicated, the address for each person is c/o Salem Communications Corporation, 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 30, 2006 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.
- Percentage voting power is based upon 18,793,824 shares of Class A common stock and 5,553,696 shares of Class B common stock all of which were outstanding as of March 30, 2006, and the general voting power of one vote for each share of Class A common stock and ten votes for each share of Class B common stock.
- Includes shares of Class A common stock held by a trust of which Mr. Epperson is trustee and shares held directly by Mr. Epperson. As husband and wife, Mr. and Mrs. Epperson are each deemed to be the beneficial owner of shares held by the other and, therefore their combined beneficial ownership is shown in the table. Includes 248,480 shares of Class A common stock subject to options that are exercisable within 60 days.
- Includes shares of Class B common stock held by a trust of which Mr. and Mrs. Epperson are trustees.
- These shares of Class A and Class B common stock are held by trusts of which Mr. Atsinger is trustee. Includes 360,531 shares of Class A common stock subject to options that are exercisable within 60 days.



**Table of Contents**

- (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 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 Edward C. Atsinger, individually, which shares are not included in shares beneficially owned by Edward G. Atsinger III as reflected in this table.
- (7) Includes 4,500 shares of Class A common stock subject to options that are exercisable within 60 days.
- (8) Includes 8,500 shares of Class A common stock subject to options that are exercisable within 60 days.
- (9) Includes 30,525 shares of Class A common stock subject to options that are exercisable within 60 days.
- (10) Includes 2,450 shares of Class A common stock held by a trust for which Mr. Evans is trustee, 600 shares held in custody for his minor daughter and 2,750 shares held by Mr. Evans's spouse as a joint tenant with Mr. Evans's father-in-law. Mr. Evans disclaims beneficial ownership of all of the 2,750 shares of Class A common stock beneficially owned by his father-in-law. Includes 85,684 shares of Class A common stock subject to options that are exercisable within 60 days.
- (11) These shares of Class A common stock are held by trusts for which Mr. Halvorson and his wife are trustees. Includes 11,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (12) Includes 1,411 shares held by Mr. Hinz's wife and 444 shares held by Mr. Hinz's son. Mr. Hinz disclaims beneficial ownership of shares of Class A common stock held by his wife and his son. Includes 16,200 shares of Class A common stock subject to options that are exercisable within 60 days.
- (13) Includes 8,500 shares of Class A common stock subject to options that are exercisable within 60 days.
- (14) Includes 44,778 shares of Class A common stock held by a trust for which Mr. Riddle is trustee. Includes 16,200 shares of Class A common stock subject to options that are exercisable within 60 days.
- (15) This information is based on the Schedule 13G/A filed by Columbia Wanger Asset Management, L.P. ( CWAM ), WAM Acquisition GP, Inc. ( WAM GP ), and Columbia Acorn Trust ( Acorn and, together with CWAM and WAM GP, Columbia ), with the SEC on February 14, 2006. Columbia reported that as of December 31, 2005, it had shared voting and shared dispositive power with respect to 3,366,700 shares.
- (16) This information is based on a Schedule 13G/A filed by FMR Corp. ( FMRC ), Edward C. Johnson 3d ( ECJ ), Abigail P. Johnson ( APJ and, together with ECJ and FMRC, FMR ), with the SEC on February 14, 2006. FMR reported that as of December 31, 2005, it was the beneficial owner of 2,757,256 shares of our issued and outstanding Class A common stock. FMR reported that it has sole voting power with respect to 358,808 shares and sole dispositive power with respect to 2,757,256 shares.



**Table of Contents****RELATED PARTY TRANSACTIONS****Leases With Principal Stockholders**

As of March 30, 2006, the Company leases the studios and tower and antenna sites described in the table below from Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of Messrs. Atsinger and Epperson and their families. All such leases have cost of living adjustments. Based upon management's assessment and analysis of local market conditions for comparable properties, the Company believes that such leases do not have terms that vary materially from those that would have been available from unaffiliated parties.

<u>Market</u>	<u>Station Call Letters</u>	<u>Facilities Leased</u>	<u>Current Annual Rental</u>	<u>Expiration Date(1)</u>
<b>Leases with both Messrs. Atsinger and Epperson:</b>				
Los Angeles, CA	KTIE-AM	Office/Studios	\$ 25,896	2021
San Francisco, CA	KFAX-AM	Antenna/Tower	172,584	2013
Philadelphia, PA	WFIL-AM/WNTP-AM	Antenna/Tower/Studios	132,816	2014
Houston-Galveston, TX	KNTH-AM/ KTEK-AM	Antenna/Tower	38,136	2015
Seattle-Tacoma, WA	KGW-AM KLFE-AM	Antenna/Tower	43,176	2012
Minneapolis-St. Paul, MN	KKMS-AM/KYCR-AM	Antenna/Tower/Studios	160,068	2016
Pittsburgh, PA	WORD-FM	Antenna/Tower	32,172	2013
Denver-Boulder, CO	KRKS-AM KNUS-AM	Antenna/Tower	67,812	2009
Portland, OR	KPDQ-AM	Antenna/Tower	22,284	2016
Sacramento, CA	KFIA-AM	Antenna/Tower	16,608	2012
San Antonio, TX	KSLR-AM Day site KSLR-AM Night site	Antenna/Tower	99,576	2016
Phoenix, AZ	KPXQ-AM	Antenna/Tower	39,276	2017
Orlando, FL	WTLN-AM	Tower/Transmitter	11,484	2009
			46,177	2010
			80,000	2045
			<u>\$ 1,039,353</u>	
<b>Lease with Mr. Atsinger:</b>				
San Diego, CA	KPRZ-AM	Antenna/Tower	\$ 129,421	2028
			<u>\$ 1,168,774</u>	

(1) The expiration date reported for certain facilities represents the expiration date assuming exercise of all lease term extensions at Salem's option.

Rental expense paid by the Company to Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of their families for 2005 amounted to approximately \$1.0 million. Rental expense paid by the Company to Mr. Atsinger or trusts created for the benefit of his family for 2005 amounted to approximately \$0.1 million.

**Radio Stations Owned by the Eppersons**

Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, currently serves as an officer, director and stockholder of several radio broadcasting entities as follows:

Secretary, Treasurer, and a director of Truth Broadcasting Corporation, licensee of WLVA-AM, Lynchburg, Virginia, WDRV-AM, Wake Forest, North Carolina, WTRU-AM, Kernersville, North Carolina, WKEW-AM, Greensboro, North Carolina, WPOL-AM, Winston-Salem, North Carolina, WZRH-AM, Dallas, North Carolina, and broker of airtime on WGMA-AM, Spindale, North Carolina.

## **Table of Contents**

President, a director and 100% stockholder of Chesapeake-Portsmouth Broadcasting Corporation, licensee of WTJZ-AM, Newport News, Virginia, WLES-AM, Lawrenceville, Virginia, WPMH-AM, Claremont, Virginia, and broker of airtime on WRJR-AM, Portsmouth, Virginia. Chesapeake-Portsmouth Broadcasting Corporation is also a 50% member of Northeast Florida Radio LLC, permittee of 20010817AAf-AM, Nassau Village-Ratliff, Florida.

President and a director of Delmarva Educational Association, licensee of noncommercial radio station WAZP-FM, Cape Charles, Virginia and permittee of noncommercial radio station WWIP-FM, Cheriton, Virginia, and

President and a director of New Covenant Educational Ministries, Inc., licensee of noncommercial radio station WCRJ-FM, Jacksonville, Florida (and FM translator W279AG), and noncommercial station WAYL-FM, St. Augustine, Florida (and FM translators W232AY, Jacksonville, Florida and W262AG, Orange Park, Florida).

These Virginia and North Carolina markets are not currently served by stations owned and operated by the Company. Acquisitions in such markets are not part of the Company's current business and acquisition strategies. The stations in the Florida markets are non-commercial stations and translators. Under his employment agreement, Mr. Epperson is required to offer the Company a right of first refusal of opportunities related to the Company's business.

### **Radio Stations Owned by Mr. Hinz**

Mr. Hinz, a director of the Company, through companies or entities controlled by him, operates 19 radio stations in Southern California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language. Operating radio stations with such programming in the markets reached by such stations is not part of the Company's current business strategy.

### **Truth For Life Mr. Hinz and Mr. Weinberg**

Mr. Hinz and Mr. Weinberg are members of the board of directors of Truth For Life, a non-profit organization that is a substantial customer of Salem. During 2005, the Company was paid approximately \$1.6 million by Truth For Life for airtime.

### **Split-Dollar Life Insurance**

In 1997, the Company purchased split-dollar life insurance policies for its Chairman and Chief Executive Officer. The premiums were \$134,000, \$219,000 and \$230,000 for the years ended December 31, 2003, 2004 and 2005, respectively. The amounts paid by the Company, which will be repaid by the beneficiaries of the insurance policies, have been reserved completely. On December 31, 2003, the Chairman and Chief Executive Officer transferred ownership of these insurance policies to the Company with the Company retaining the right to recover all amounts paid by the Company under said policies and the Chairman and Chief Executive Officer designating beneficiaries for the remainder of the policy proceeds.

### **Transportation Services Supplied by Atsinger Aviation**

From time to time, the Company rents aircraft from a company which is owned by one of the principal stockholders. As approved by the independent members of the Company's board of directors, the Company rents these aircraft on an hourly basis at what the Company believes are favorable rates and uses them for general corporate needs. Total rental expense for these aircraft for 2003, 2004 and 2005 amounted to approximately \$277,000, \$297,000 and \$226,000, respectively.

**Americans of Faith and Mr. Atsinger**

Edward G. Atsinger III is the co-chair of the board of directors of Americans of Faith, a non-profit organization. The Company made charitable contributions to Americans of Faith of \$45,000 and \$30,000 in the years ended December 31, 2004 and 2005, respectively.

**Table of Contents****Employment of Edward C. Atsinger**

Edward C. Atsinger, son of Edward G. Atsinger, III and beneficial owner of approximately 5.82% of our Class A common stock, was employed in the capacity of Producer until June 2, 2005. In 2005, he was paid \$29,000 for his services.

**THE COMPANY'S RELATIONSHIP WITH ITS INDEPENDENT PUBLIC ACCOUNTANTS****Principal Accountant Fees and Services**

The following table summarizes the fees billed by the Company's registered public accounting firm, Ernst & Young LLP, for professional services rendered during fiscal year 2005 and fiscal year 2004:

	<b>Fees Paid During Year Ended</b>	
	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Audit Fees (1)	\$ 738,053	\$ 802,276
Audit-Related Fees (2)	\$ 3,500	\$ 3,500
Tax Fees (3)	\$ 0	\$ 12,523
All Other Fees	\$ 0	\$ 0
<b>Total Fees For Services (4)</b>	<b>\$ 741,553</b>	<b>\$ 818,299</b>

- (1) Audit fees include fees associated with the audit of the Company's annual financial statements; Sarbanes-Oxley Act Section 404 attest services; reviews of quarterly financial statements; and services that generally only the auditor can reasonably provide such as comfort letters, consents, and assistance with and review of documents filed with the SEC.
- (2) Audit-related fees include fees associated with accounting consultations.
- (3) Tax fees include services for tax compliance, tax advice and tax planning, except those provided in connection with the audit or quarterly reviews.
- (4) None of the fees listed in the table above were approved by the Audit Committee in reliance on a waiver from pre-approval under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**Audit Committee's Pre-Approval Policies and Procedures**

In accordance with the Audit Committee's pre-approval policies and procedures and the requirements of applicable law, all services to be provided by Ernst & Young LLP are pre-approved by the Audit Committee. Pre-approval includes audit services, audit-related services and other permissible non-audit services. Pre-approval is generally provided by the full Audit Committee for up to a year and is detailed as to the particular defined tasks or scope of work and is subject to a specific budget. In some cases, the Audit Committee has delegated authority to the Chairman of the Audit Committee to pre-approve additional services, and any such pre-approvals granted by the Chairman must then be

communicated to the full Audit Committee at or prior to the next scheduled Audit Committee meeting. When assessing whether it is appropriate to engage the independent registered public accounting firm to perform a service, the Audit Committee considers, among other things, whether such services are consistent with the independent registered public accounting firm's independence and whether such services constitute prohibited non-audit functions under Section 201 of the Sarbanes-Oxley Act of 2002. The Audit Committee considered the provision of the services listed in the table above by Ernst & Young LLP and determined that the provision of such services was compatible with maintaining the independence of Ernst & Young LLP.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

At the Annual Meeting, stockholders of the Company will be asked to vote on the election of eight directors. Two nominees are nominated as Independent Directors and shall be elected by the holders of Class A common stock as a class, exclusive of all of the holders of Class B common stock. Paul Pressler and David Davenport

**Table of Contents**

have been nominated as the Independent Directors. The nominees receiving the highest number of votes of shares entitled to vote for such directors at the Annual Meeting will be elected directors of the Company. To fill these board positions, unless indicated to the contrary, the enclosed proxy will be voted **FOR** the nominees listed below, as listed on the enclosed proxy card for whom the stockholder is entitled to vote. All directors elected at the Annual Meeting will be elected to a one-year term and will serve until the annual meeting of stockholders to be held in the year 2007 or until their respective successors have been duly elected and qualified.

Set forth below are the names of persons nominated by the Company's board of directors for election as directors at the Annual Meeting:

Stuart W. Epperson

Edward G. Atsinger III

David Davenport

Eric H. Halvorson

Roland S. Hinz

Paul Pressler

Richard A. Riddle

Dennis M. Weinberg

Your proxy, unless otherwise indicated, will be voted **FOR** each of the directors for whom you are entitled to vote, that is, as a Class A common stock holder **FOR** Messrs. Epperson, Atsinger, Davenport, Halvorson, Hinz, Pressler, Riddle and Weinberg; and as a Class B common stock holder **FOR** Messrs. Epperson, Atsinger, Halvorson, Hinz, Riddle and Weinberg. For a description of the nominees' principal occupation and business experience during the last five years and present directorships, please see the section of this Proxy Statement entitled "THE BOARD OF DIRECTORS Board of Directors," above.

The Company has been advised by each nominee named in this Proxy Statement that he is willing to be named as such herein and is willing to serve as a director if elected. However, if any of the nominees should be unable to serve as a director, the enclosed proxy will be voted in favor of the remainder of those nominees not opposed by the stockholder on such proxy and may be voted for a substitute nominee selected by the board of directors.

**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 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 1. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 1.**

**PROPOSAL 2**

**AMENDMENT TO THE AMENDED AND RESTATED**

**1999 STOCK INCENTIVE PLAN**

**General**

On May 29, 1999, the Company adopted the 1999 Stock Incentive Plan, as amended in 2001 and further amended and restated in 2003 and 2005 (the 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.

Salem's board of directors has approved amendments to the Plan that will:

Expressly permit the repricing of any option outstanding under the Plan without approval by our stockholders; and

Permit loans to be made by the Company to Plan participants (subject to other existing prohibitions on making such loans) to be used to pay the exercise price for options outstanding under the Plan.



## **Table of Contents**

### **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 all outstanding shares of Class A common stock and Class B common stock is present and entitled to vote, is required to approve the amendments to the Plan.

If we do not obtain stockholder approval, Salem will not implement the proposed amendments to the Plan, including the amendments specified above. The Plan will, however, remain in effect.

The board of directors believes that the proposed amendments to the Plan are in the best interests of Salem and our stockholders. **THEREFORE, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF PROPOSAL 2.**

### **Summary of the Amended and Restated 1999 Stock Incentive Plan**

The following is a summary of the principal features of the Plan as in effect and as proposed to be amended by Proposals 2 and 3. The summary is qualified in its entirety by Proposals 2 and 3 and the Plan, a copy of which, as proposed to be amended, is attached as Appendix B to this Proxy Statement.

The 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 Plan (the Administering Body ). Subject to the express provisions of the Plan, the Administering Body is authorized to interpret and construe the 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 Plan and such other documents. The interpretation and construction by the Administering Body of any provisions of the Plan or of any award thereunder will be conclusive and binding. Any action taken by, or inaction of, the Administering Body relating to the Plan or any awards thereunder will be within the absolute discretion of the Administering Body and will be conclusive and binding upon all persons.

The Administering Body may from time to time in its discretion select the eligible persons to whom, and the times at which, 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 will determine. The Administering Body may grant awards singly, in combination or in tandem with other awards, as it determines in its discretion. 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 Plan**

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

The persons eligible to receive awards under the Plan include directors, officers, employees, consultants, and advisors of the Company and its affiliated entities; *provided, however*, that 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 "IRC"). For purposes of the Plan, the term "affiliated entities" means any parent corporation or subsidiary corporation of the Company, as defined in Sections 424(e) and 424(f), respectively, of the IRC. As of March 30, 2006, there were approximately 170 eligible participants in the Plan.

### **Awards**

Subject to certain limitations specified in the Plan, the Administering Body may, in its discretion, grant to eligible persons any one or more of the following awards under the Plan: stock options, performance awards,

## **Table of Contents**

restricted stock, stock appreciation rights, stock payments, dividend equivalents, stock bonuses, stock sales, phantom stock, and other stock-based benefits. Each award granted under the Plan 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 in its discretion 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 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 Section 422 of the IRC ( Incentive Stock Options ) or do not qualify as Incentive Stock Options ( Nonqualified Stock Options ).

*Exercise Price.* The exercise price for each stock option will be determined by the Administering Body as of the date such stock option is granted; *provided, however*, that the exercise price may be no less than (A) the fair market value of the Class A Common Stock subject to the option as of the date the Incentive Stock Option is granted, and (B) in the case of a grant to a Significant Stockholder (defined below), 110% of the fair market value of the Class A Common Stock subject to the 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 10 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, such date later than 10 years after the Stock Option is granted as shall be determined in the discretion of the Administering Body), and will be subject to earlier termination as provided in the Plan or the award document. Except as otherwise provided in the 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 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 Plan. Notwithstanding any other provision of the Plan, the Administering Body may impose such conditions upon the exercise of stock options (including, without limitation, conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements, including without limitation Rule 16b-3 and Rule 10b-5 under 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 Plan, a Significant Stockholder shall mean a stockholder who, at the time a stock option is granted to such individual under the 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 Section 424(d) of the IRC).

Subject to the stockholder's approval of this Proposal 2, an option holder must pay the exercise price of an option granted under the Plan either in cash at the time of exercise or pursuant to a same-day sale program developed pursuant to Regulation T of the Federal Reserve Board. Salem's practice has always been to require cash payments on exercise of options, but unless the proposed Plan amendment is approved, the Plan will continue to allow other forms of consideration, including loans, for exercise of options.

*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 attainment of performance criteria

## Table of Contents

established by the Administering Body in connection with the grant of the awards ( Performance Awards ). Each Performance Award and all rights or obligations thereunder will expire on a date determined by the Administering Body, and will be subject to earlier termination as provided in the Plan or the award document.

*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; *provided, however*, that 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 a stockholder with respect to the Restricted Stock granted or sold to such recipient, including, without limitation, the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto. Unless the Administering Body determines otherwise, upon a recipient's termination of employment for any reason, all of the recipient's Restricted Stock remaining subject to restrictions on the date of such termination 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 has full discretion to determine the form in which payment of a stock appreciation right will be made and to 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 (or any other comparable provisions in effect at the time or times in question).

Stock appreciation rights granted under the 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.



## **Table of Contents**

*Dividend Equivalents.* The Administering Body may grant dividend equivalents to any recipient under the 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 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; and 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.

*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 bonus granted under the 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.

## **Option Repricing**

Subject to stockholder approval of this Proposal 2, the Plan has been amended to expressly provide that the Administering Body may reduce or lower the exercise price, purchase price or initial value of stock options after they have been granted without prior stockholder approval. Without the approval of the amendment to the Plan described in this Proposal 2, the Plan will continue to permit repricing of stock options only if the repricing is approved by duly authorized vote of a majority of all outstanding shares of the Company's Class A and Class B common stock.

## **Award Limits**

In order for the compensation attributable to awards granted under the Plan to qualify as performance-based compensation (as defined in the Plan), no one eligible person will be granted any awards with respect to more than 100,000 shares of Class A Common Stock in any one calendar year. This limitation is subject to adjustment as set forth in the Plan, but only to the extent such adjustment would not affect the status of compensation attributable to awards as performance-based compensation. Further, the aggregate fair market value (determined as of the date of grant) of the Class A Common Stock for which one or more Incentive Stock Options granted to any one eligible person under the Plan (or any other option plan of the Company or any of its affiliated entities) may for the first time become exercisable during any one calendar year will not exceed \$100,000.





## **Table of Contents**

### **Plan Effectiveness and Duration**

The Plan became effective as of May 25, 1999 (the Effective Date ), and will continue in effect until the 10th anniversary of the Effective Date (the Plan Term ), at which time the Plan will automatically terminate. Notwithstanding the foregoing, each award properly granted under the Plan during the Plan Term will remain in effect after termination of the Plan until such award has been exercised, terminated or expired in accordance with its terms and the terms of the Plan.

### **Amendment and Termination**

The Administering Body may, insofar as permitted by applicable law, rule or regulation, from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, and the Plan as so revised or amended will govern all awards thereunder, including those granted before such revision or amendment; *provided, however*, that no such revision or amendment will alter, impair or diminish any rights or obligations under any award previously granted under the 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 Plan to comply with or take advantage of amendments to applicable laws, rules or regulations, including amendments to the Securities Act, Exchange Act, the IRC (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 shall be required unless (a) such approval is required by the Plan or by applicable law, rule or regulation, or (b) an amendment or revision to the Plan would materially increase the number of shares subject to the Plan (as adjusted under the Plan), materially modify the requirements as to eligibility for participation in the Plan, extend the final date upon which awards may be granted under the Plan, or otherwise materially increase the benefits accruing to recipients in a manner not specifically contemplated herein, or affect the Plan's compliance with Rule 16b-3 or applicable provisions of or regulations under the IRC, and stockholder approval of the amendment or revision is required to comply with Rule 16b-3 or applicable provisions of or rules under the IRC.

### **Restrictions on Transferability**

No award granted under the Plan 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 qualified 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. Notwithstanding the foregoing, (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 IRC) may not be assigned, transferred or exercisable in violation of Section 422(b)(5) of the IRC (or any comparable or successor provision) or the regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

### **Stock Subject to the Plan**

There are 3,100,000 shares of Class A common stock available for issuance under the Plan. If options granted under the Plan expire or otherwise terminate without being exercised, the Class A common stock not purchased pursuant to such options again becomes available for issuance under the Plan.

**Governing Law**

The 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.

## **Table of Contents**

### **Federal Income Tax Consequences**

*General.* The following summary of certain federal income tax consequences of the receipt and exercise of 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 the receipt and exercise of stock options 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 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 Plan are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and are not qualified under Section 401(a) of the IRC.

*Incentive Stock Options.* Stock options granted under the Plan may qualify as Incentive Stock Options within the meaning of Section 422 of the IRC. 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), an 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 such 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 a stock appreciation right 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 a stock appreciation right, the holder may

## **Table of Contents**

recognize ordinary income equal to the value of the holder's right under the stock appreciation right at the time the value of such right equals such limit and the stock appreciation right is 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 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 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.

Generally, the Company will be required to make arrangements for withholding applicable taxes with respect to any ordinary income recognized by a participant in connection with an award made under the Plan.

With certain exceptions, an individual may not deduct investment-related interest to the extent such interest exceeds the individual's net investment income for the year. Investment interest generally includes interest paid on indebtedness incurred to purchase shares of Class A Common Stock. Interest disallowed under this rule may be carried forward to and deducted in later years, subject to the same limitations.

Special rules will apply in cases where a recipient of an award pays the exercise or purchase price of the award or applicable withholding tax obligations under the Plan by delivering previously owned shares of Class A Common Stock or by reducing the amount of shares otherwise issuable pursuant to the award. The surrender or withholding of such shares will in certain circumstances result in the recognition of income with respect to such shares or a carryover basis in the shares acquired. A recipient should consult his or her tax advisor regarding the tax consequences associated with using previously owned shares of Class A Common Stock or reducing the amount of shares issuable pursuant to the award for the foregoing purposes.

The terms of the agreements pursuant to which specific awards are made to employees under the Plan may provide for accelerated vesting or payment of an award in connection with a change in ownership or control of the Company. In that event and depending upon the individual circumstances of the recipient, certain amounts with respect to such awards may constitute excess parachute payments under the golden parachute provisions of the IRC. Pursuant to these provisions, a recipient will be subject to a 20% excise tax on any excess parachute payments and the Company will be denied any deduction with respect to such payment. A recipient of an award should consult his or her tax advisor as to whether accelerated vesting of an award in connection with a change of ownership or control of the Company would give rise to an excess parachute payment.



**Table of Contents****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 options 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 stock options.

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

Pursuant to the Plan, each of the directors and executive officers, among others, is eligible to receive awards under the Plan. Participation in the 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 Plan is not determinable. If this Proposal 2 is approved by the Company's stockholders, options that have been granted to the directors and officers can be re-priced by the Plan's Administering Body without need for stockholder approval and certain plan participants would be eligible to receive loans authorized by the Plan's Administering Body.

**Plan Benefits**

The following table sets forth, to the extent determinable, the benefits under the Plan that have been received by each of the following as of April 24, 2006: (i) our Chief Executive Officer and our other four most highly compensated executive officers in 2005, (ii) all current executive officers, as a group; (iii) our directors who are not executive officers, as a group; and (iv) all other employees, including all current officers who are not executive officers, as a group.

**Amended and Restated 1999 Stock Incentive Plan**

<u>Name and Position</u>	<u>Number of Shares (1)</u>
Edward G. Atsinger III	75,000(2)
President, Chief Executive Officer and Director	
Stuart W. Epperson	30,000(2)
Chairman of the Board	
Joe D. Davis	25,000(2)
Executive Vice President and Chief Operating Officer	
David A.R. Evans	20,000(2)
Executive Vice President	

Business Development and Chief

Financial Officer

Robert C. Adair	5,000(2)
-----------------	----------

Senior Vice President, Operations

Executive Group (8 persons) (3)	169,000
---------------------------------	---------

Non-Executive Director Group (6 persons)	0
--	---

Non-Executive Officer Employee Group (approximately 1,520 persons)(4)	120,950(2)
---	------------

- 
- (1) The Compensation Committee made a grant of stock options to officers and other employees on March 15, 2006. Additional grants during 2006, if any, are not determinable at this time.
  - (2) Each of these stock options were granted on March 15, 2006, with an exercise price for each share of \$13.51.
  - (3) This group consists of 13 persons, including each of the named executive officers listed above except Robert C. Adair.
  - (4) Determined as of April 14, 2006 and excluding executive group listed above.



**Table of Contents**

**PROPOSAL 3**

**RE-APPROVAL OF MAXIMUM ANNUAL STOCK AWARDS TO SINGLE PARTICIPANT IN AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN**

If an award under the Plan is intended to qualify as performance-based compensation for purposes of Section 162(m) of the IRC, then under the terms of the Plan, the annual amount of shares available under awards granted to a participant cannot exceed 100,000 shares. Section 162(m) of the IRC imposes a \$1 million limit on the amount of compensation that may be deducted by the Company in any year with respect to each of the Chief Executive Officer of the Company and its other four most highly compensated officers, including deductions attributable to awards under the Plan. The \$1 million deduction limit of Section 162(m) of the IRC, however, does not apply to performance-based compensation. For awards under the Plan to constitute performance-based compensation, one requirement is that at least every five years the stockholders approve the maximum number of shares for which grants may be made to any participant during a specified period.

The current annual limit, which was previously approved by the Company's stockholders in 1999 and reaffirmed by the Company's stockholders in June 2003 and May 2005, is 100,000 shares. In order to preserve the deductibility of compensation expense relating to awards granted under the Plan, the board is seeking the favorable approval of the Company's stockholders to reapprove the Plan in this regard.

**Interest of Certain Persons in Matters to be Acted upon**

Pursuant to the Plan, each of the directors and executive officers, among others, is eligible to receive awards under the Plan. Participation in the Plan is at the discretion of the board or its appointed committee and, accordingly, future participation by directors, executive officers and other employees under the Plan is not determinable. However, if this proposal were approved, the maximum number of shares available under awards granted to any single participant, including directors and executive officers, in any one calendar year would continue to be 100,000.

**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 meeting, at which a quorum representing a majority 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 3. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 3.**

**PROPOSAL 4**

**RATIFICATION OF SELECTION OF**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Company's board of directors has selected Ernst & Young LLP to serve as its independent registered public accounting firm for the fiscal year ending December 31, 2006. Ernst & Young has served as the Company's independent auditor since 1991. A representative of Ernst &

Young is expected to attend the Annual Meeting, and the representative will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from stockholders.

**Reasons for the Proposal**

Selection of the Company's independent registered public accounting firm is not required to be submitted for stockholder approval. Nonetheless, the board of directors is seeking ratification of its selection of Ernst & Young LLP as a matter of further involving the Company's stockholders in its corporate affairs. If the stockholders do not ratify this selection, management and the board of directors will reconsider its selection of Ernst & Young LLP and will either continue to retain this firm or appoint new independent registered public

## Table of Contents

accounting firm upon recommendation of the Audit Committee. Even if the selection is ratified, the Audit Committee or our board of directors, in their discretion, may direct the appointment of different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

### **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 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 4. **THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR PROPOSAL 4.**

### **STOCKHOLDERS PROPOSALS FOR 2007 PROXY STATEMENT**

Any stockholder of the Company wishing to have a proposal considered for inclusion in the Company's proxy solicitation materials relating to the Company's 2007 annual meeting of stockholders must, in addition to other applicable requirements, give notice of such proposal in writing to the Secretary of the Company at its principal executive offices and such notice must be received on or before December 26, 2006. The proposal may be included in next year's proxy statement if it complies with certain rules and regulations promulgated by the SEC. The board of directors will review proposals from eligible stockholders which it receives by December 26, 2006, and will determine whether any such proposal will be included in its 2007 proxy solicitation materials.

### **OTHER MATTERS**

At the time of preparation of this Proxy Statement, the board of directors of the Company was not aware of any other matters to be brought before the Annual Meeting. No eligible stockholder had submitted notice of any proposal 90 days before the date of the Annual Meeting. However, if any other matters are properly presented for action, in the absence of instructions to the contrary, it is the intention of the persons named in the enclosed form of proxy to vote, or refrain from voting, in accordance with their respective best judgment on such matters.

Any eligible stockholder of the Company wishing to have a proposal considered for inclusion in the Company's 2007 proxy solicitation materials, including director nominations, must set forth such proposal in writing and file it with the Company's Secretary on or before December 26, 2006. The board will review new proposals from eligible stockholders if they are received by December 26, 2006 and will determine whether such proposals will be included in the Company's 2007 proxy solicitation materials. Proposals must be submitted in accordance with the Company's Bylaws and comply with SEC regulations promulgated pursuant to Rule 14a-8 of the Exchange Act.

If a stockholder desires to have a proposal presented at the Company's annual meeting of stockholders in 2007 and the proposal is not intended to be included in the Company's related 2007 proxy solicitation materials, the stockholder must give advance notice to the Company in accordance with the Company's Bylaws. Pursuant to the Company's Bylaws, only such business shall be conducted, and only such proposals shall be acted upon at an annual meeting of stockholders as are properly brought before the meeting. For business to be properly brought before an annual meeting by a stockholder, in addition to any other applicable requirements, timely notice of the matter must first be given to the Secretary. To be timely, a stockholder's written notice must be delivered to the Secretary at the Company's principal executive offices not later than the 90th day nor earlier than the 120th day prior to the first anniversary of the preceding annual meeting; provided, however, that in the event the date of the

Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

annual meeting is more than 30 days before or more than 60 days after such anniversary date, then notice of the stockholder proposal must be delivered to the Secretary not earlier than the 120th day nor later than the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of

**Table of Contents**

the date of such annual meeting is first made. If such proposal is for a nominee for director, such stockholder's notice must set forth with respect to such director nominee all of the information relating to such person that is required to be disclosed in solicitations for elections of directors under the rules of the SEC; for any stockholder proposal, the notice must comply with Section 2.2 of Article II of the Company's Bylaws (a copy of which is available upon request to the Secretary of the Company), which section requires that the notice contain a brief description of such proposal and the reasons for conducting such business at the annual meeting, the name and address, as they appear on the Company's books, of the stockholder making such proposal, the number of shares of Class A common stock and Class B common stock beneficially owned by such stockholder and any material interest of such stockholder in such proposal.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Pursuant to Section 16(a) of the Exchange Act and the rules promulgated thereunder and applicable requirements of the Nasdaq Stock Market, officers and directors of the Company and persons who beneficially own more than 10% of the common stock of the Company are required to (i) report their initial ownership and change in ownership with respect to all equity securities of the Company, and (ii) furnish such reports to the Company.

Based solely on its review of the copies of such reports received by it during or with respect to the year ended December 31, 2005, and/or written representations from such reporting persons, the Company believes that its officers, directors and more than ten-percent stockholders complied with all Section 16(a) filing requirements applicable to such individuals.

**Table of Contents**

**ANNUAL REPORT ON FORM 10-K**

The Company's Annual Report to Stockholders for the year ended December 31, 2005, including audited financial statements, is being mailed to stockholders along with these proxy materials, but such Annual Report is not incorporated herein and is not deemed to be a part of this Proxy Statement. The Company's Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the SEC (without exhibits) is available to stockholders via the Company's Internet website ([www.salem.cc](http://www.salem.cc)) or without charge upon written request to the Company. 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 of these materials, contact Jonathan L. Block, Salem Communications Corporation, 4880 Santa Rosa Road, Camarillo, California 93012.

By order of the board of directors

JONATHAN L. BLOCK

*Secretary*

Camarillo, California

April 24, 2006

**PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY.**

**NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

If you have any questions, or have any difficulty voting your shares, please telephone Jonathan L. Block of Salem at (805) 987-0400.

**Table of Contents**

**APPENDIX A**

**SALEM COMMUNICATIONS CORPORATION AUDIT COMMITTEE CHARTER**

***1. Organization***

1.1. This charter governs the operations of the audit committee (the Committee).

1.2. Each member of the Committee shall be appointed by the board of directors and may be removed by the board in its discretion. The board of directors shall designate one member of the Committee to serve as chair of the Committee, or delegate the authority to designate a chair to the Committee. The Committee shall be comprised of at least three directors.

1.2.1. Each member of the Committee shall be independent of management and the Company and, at the time of his or her appointment to the Committee, shall be able to read and understand financial statements, including the Company's balance sheet, income statement and cash flow statement.

1.2.2. For purposes hereof, independent shall mean a director who (i) meets the National Association of Securities Dealers, Inc. (NASD) definition of independence; (ii) meets the criteria for independence set forth in Section 301 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley); and (iii) does not directly or indirectly own or control 10% or more of the Company's voting securities.

1.2.3. At least one member of the Committee shall meet the requirements of a financial expert, as defined under Section 407 of Sarbanes-Oxley, or, if not, the Company shall disclose why not in its annual report on Form 10-K.

1.3. Notwithstanding Sections 1.2.1 and 1.2.2, above, one director who is not independent as defined in the NASD rules but meets the independence requirements of Section 301 of Sarbanes-Oxley, and who is not a current employee of the Company or an immediate family member of a current employee, may be appointed to the Committee, if the board, under exceptional and limited circumstances, determines in accordance with applicable provisions of NASD rules that membership on the Committee by such director is in the best interests of the Company and its stockholders.

1.4. The Committee shall review and reassess this charter at least annually, and once it has been approved by the board of directors, the Committee shall obtain the board's approval of any revisions.

***2. Statement of Purposes***

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

- 2.1. The primary purpose of the Committee is to oversee the accounting, reporting and financial practices of the Company and its subsidiaries.
  
- 2.2. The Committee's purposes also include assisting the board of directors in fulfilling their oversight responsibility relating to: (i) surveillance of internal accounting and financial controls; (ii) review of the independent auditors' qualifications and independence; (iii) performance of the Company's internal audit function; (iv) performance of the independent auditors; and (v) compliance with legal and regulatory requirements.
  
- 2.3. The Committee shall prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

### ***3. Duties and Responsibilities***

- 3.1. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements.

A-1



**Table of Contents**

3.2. The Committee is not responsible for preparation of financial statements or for the performance of audits and its members are not auditors of the Company's financial statements.

3.3. The Committee will undertake actions appropriate to set the overall corporate tone for quality financial reporting, sound business risk practices and ethical behavior.

3.4. The following shall be the principal recurring duties and responsibilities of the Committee in performing its oversight function, and the Committee shall carry out the following duties and responsibilities consistent with and subject to applicable law and rules and regulations promulgated by the Securities and Exchange Commission, NASD or other applicable regulatory authorities.

3.4.1. The Committee is directly responsible, in its capacity as a committee of the board, for the appointment, compensation and oversight of the independent auditors. In this regard, the Committee shall have the sole authority to appoint, retain, determine funding for, and, when appropriate, terminate the independent auditors.

3.4.2. The Committee shall review and approve in advance all audit services to be provided by the independent auditors and establish policies and procedures with respect to prior approval of permissible non-audit services to be provided by the independent auditors.

3.4.3. The Committee shall periodically review, at least annually, the independence of the independent auditors. In this regard, the Committee shall: (i) review and discuss with the independent auditors the matters included in the written disclosures required by professional independence standards applicable to the independent auditors, including reviewing and discussing any relationships between the auditors and the Company or any other relationships that may adversely affect the independence of the auditors; (ii) consider whether the independent auditors' performance of permissible non-audit services is compatible with the auditors' independence; (iii) present to the board the Committee's conclusions with respect to the independence of the auditors.

3.4.4. The Committee shall review and discuss with the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation.

3.4.5. The Committee shall periodically review and discuss the adequacy and effectiveness of the Company's internal controls, any significant deficiencies in internal controls and significant changes in such controls, and review and discuss with the principal internal auditor of the Company and such others as the Committee deems appropriate, the scope and results of the internal audit program and the Company's risk assessment and risk management policies.

3.4.6. The Committee shall meet with the independent auditors, with and without management present, to discuss the results of their audits.

3.4.7. The Committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. The Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards. The chair of the Committee may

represent the entire Committee for the purposes of this review.

3.4.8. The Committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity and completeness of the annual audit and any other matters required to be communicated to the Committee by the independent auditors

A-2

**Table of Contents**

under generally accepted auditing standards. The Committee shall recommend to the board whether the financial statements should be included in the Company's Annual Report on Form 10-K.

3.4.9. The Committee shall review and discuss with management and the independent auditors:

(a) any material financial or non-financial arrangements of the Company which do not appear on the financial statements of the Company; and

(b) any transactions or courses of dealings, with related parties which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the Company's financial statements.

3.4.10. The Committee shall review and discuss with management and the independent auditors the accounting policies which may be viewed as critical, and review and discuss any significant changes in the accounting policies of the Company and accounting and financial reporting proposals that may have a significant impact on the Company's financial reports.

3.4.11. The Committee shall periodically review and discuss the adequacy and effectiveness of the Company's disclosure controls and procedures and management reports thereon.

3.4.12. The Committee shall review and discuss with management and the independent auditors any material financial or non-financial arrangements of the Company, which do not appear on the financial statements of the Company.

3.4.13. The Committee shall review any related party transactions involving directors or executive officers of the Company.

3.4.14. The Committee shall review material pending legal proceedings involving the Company and other contingent liabilities.

3.4.15. The Committee shall establish procedures for receiving and handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

3.4.16. The Committee shall establish policies and the parameters for hiring of employees and former employees of the independent auditors.

**4. Meetings**

4.1. The Committee shall meet as often as may be deemed necessary or appropriate in its judgment, generally four times each year, either in person or telephonically.

4.2. The Committee shall periodically meet separately in executive session with each of the independent auditors, management and the Chief Accounting Officer of the Company.

4.3. The Committee shall regularly report to the full board of directors with respect to its meetings and activities.

4.4. A majority of the members of the Committee shall constitute a quorum.

#### **5. *Outside Advisors***

The Committee shall have the authority to retain and determine funding for such outside legal counsel, accountants, experts and other advisors as it determines appropriate to assist it in the full performance of its functions. The Committee shall have sole authority to approve the fees and retention terms for its advisors.

#### **6. *Investigations***

The Committee shall have the authority to conduct or authorize investigations into any matter within its scope of responsibility with full access to all books, records, facilities and personnel of the Company and shall have the authority to retain outside advisors to assist it in the conduct of any such investigation.

**Table of Contents**

**Appendix B**

**AMENDED AND RESTATED**

**SALEM COMMUNICATIONS CORPORATION**

**1999 STOCK INCENTIVE PLAN**

**(AS AMENDED AND RESTATED THROUGH MAY 24, 2006)**

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>ARTICLE I PURPOSE OF PLAN</u></b>	B-1
<b><u>ARTICLE II EFFECTIVE DATE AND TERM OF PLAN</u></b>	B-1
<b><u>2.1 Term of Plan</u></b>	B-1
<b><u>2.2 Effect on Awards</u></b>	B-1
<b><u>2.3 Stockholder Approval</u></b>	B-1
<b><u>ARTICLE III SHARES SUBJECT TO PLAN</u></b>	B-1
<b><u>3.1 Number of Shares</u></b>	B-1
<b><u>3.2 Source of Shares</u></b>	B-1
<b><u>3.3 Availability of Unused Shares</u></b>	B-1
<b><u>3.4 Adjustment Provisions</u></b>	B-2
<b><u>(a) Adjustments</u></b>	B-2
<b><u>(b) No Fractional Interests</u></b>	B-2
<b><u>(c) Adjustments Related to Company Stock</u></b>	B-2
<b><u>(d) Right to Make Adjustment</u></b>	B-2
<b><u>(e) Limitations</u></b>	B-2
<b><u>3.5 Reservation of Shares</u></b>	B-2
<b><u>ARTICLE IV ADMINISTRATION OF PLAN</u></b>	B-2
<b><u>4.1 Administering Body</u></b>	B-2
<b><u>(a) Plan Administration</u></b>	B-2
<b><u>(b) Administration by Committee</u></b>	B-2
<b><u>4.2 Authority of Administering Body</u></b>	B-3
<b><u>(a) Authority to Interpret Plan</u></b>	B-3
<b><u>(b) Authority to Grant Awards</u></b>	B-3
<b><u>(c) Procedures</u></b>	B-3
<b><u>4.3 No Liability</u></b>	B-4
<b><u>4.4 Amendments</u></b>	B-4
<b><u>(a) Plan Amendment</u></b>	B-4
<b><u>(b) Award Amendments</u></b>	B-4
<b><u>(c) Limitation</u></b>	B-4
<b><u>4.5 Other Compensation Plans</u></b>	B-4
<b><u>4.6 Plan Binding on Successors</u></b>	B-4
<b><u>4.7 References to Successor Statutes, Regulations and Rules</u></b>	B-4
<b><u>4.8 Issuances for Compensation Purposes Only</u></b>	B-4
<b><u>4.9 Invalid Provisions</u></b>	B-4
<b><u>4.10 Governing Law</u></b>	B-4
<b><u>4.11 Interpretation</u></b>	B-4

**Table of Contents**

<b><u>ARTICLE V GENERAL AWARD PROVISIONS</u></b>	B-5
<b><u>5.1 Participation in the Plan</u></b>	B-5
<b><u>(a) Eligibility to Receive Awards</u></b>	B-5
<b><u>(b) Eligibility to Receive Incentive Stock Options</u></b>	B-5
<b><u>(c) Awards to Certain Eligible Persons</u></b>	B-5
<b><u>5.2 Award Documents</u></b>	B-5
<b><u>5.3 Exercise of Stock Options</u></b>	B-5
<b><u>5.4 Payment For Awards</u></b>	B-5
<b><u>(a) Payment of Exercise Price</u></b>	B-5
<b><u>(b) Company Assistance</u></b>	B-5
<b><u>(c) Cashless Exercise</u></b>	B-6
<b><u>(d) No Precedent</u></b>	B-6
<b><u>5.5 No Employment Rights</u></b>	B-6
<b><u>5.6 Restrictions Under Applicable Laws and Regulations</u></b>	B-6
<b><u>(a) Consents, Approvals</u></b>	B-6
<b><u>(b) No Registration Obligation; Recipient Representations</u></b>	B-7
<b><u>5.7 Additional Conditions</u></b>	B-7
<b><u>5.8 No Privileges of Stock Ownership</u></b>	B-7
<b><u>5.9 Nonassignability</u></b>	B-7
<b><u>5.10 Information to Recipients</u></b>	B-8
<b><u>5.11 Withholding Taxes</u></b>	B-8
<b><u>5.12 Legends on Awards and Stock Certificates</u></b>	B-8
<b><u>5.13 Effect of Termination of Employment on Awards</u></b>	B-8
<b><u>(a) Termination of Vesting</u></b>	B-8
<b><u>(b) Alteration of Vesting and Exercise Periods</u></b>	B-8
<b><u>(c) Leave of Absence</u></b>	B-8
<b><u>5.14 Limits on Awards to Certain Eligible Persons</u></b>	B-9
<b><u>5.15 Lock-Up Agreements</u></b>	B-9
<b><u>ARTICLE VI AWARDS</u></b>	B-9
<b><u>6.1 Stock Options</u></b>	B-9
<b><u>(a) Nature of Stock Options</u></b>	B-9
<b><u>(b) Option Exercise Price</u></b>	B-9
<b><u>(c) Option Period and Vesting</u></b>	B-9
<b><u>(d) Termination</u></b>	B-9
<b><u>(e) Special Provisions Regarding Incentive Stock Options</u></b>	B-10
<b><u>6.2 Performance Awards</u></b>	B-10
<b><u>(a) Grant of Performance Awards</u></b>	B-10
<b><u>(b) Payment of Performance Awards</u></b>	B-11

---

**Table of Contents**

<b><u>6.3 Restricted Stock</u></b>	B-11
<b><u>(a) Award of Restricted Stock</u></b>	B-11
<b><u>(b) Requirements of Restricted Stock</u></b>	B-11
<b><u>(i) No Transfer</u></b>	B-11
<b><u>(ii) Certificates</u></b>	B-11
<b><u>(iii) Restrictive Legends</u></b>	B-11
<b><u>(iv) Other Restrictions</u></b>	B-11
<b><u>(c) Lapse of Restrictions</u></b>	B-11
<b><u>(d) Rights of Recipient</u></b>	B-11
<b><u>(e) Termination of Employment</u></b>	B-11
<b><u>6.4 Stock Appreciation Rights</u></b>	B-11
<b><u>(a) Granting of Stock Appreciation Rights</u></b>	B-11
<b><u>(b) Stock Appreciation Rights Related to Options</u></b>	B-11
<b><u>(c) Stock Appreciation Rights Unrelated to Options</u></b>	B-12
<b><u>(d) Limits</u></b>	B-12
<b><u>(e) Payments</u></b>	B-12
<b><u>6.5 Stock Payments</u></b>	B-12
<b><u>6.6 Dividend Equivalent</u></b>	B-12
<b><u>6.7 Stock Bonuses</u></b>	B-13
<b><u>6.8 Stock Sales</u></b>	B-13
<b><u>6.9 Phantom Stock</u></b>	B-13
<b><u>6.10 Other Stock-Based Benefits</u></b>	B-13
<b><u>6.11 Termination of Employment</u></b>	B-13
<b><u>ARTICLE VII REORGANIZATIONS</u></b>	B-13
<b><u>7.1 Corporate Transactions Not Involving a Change in Control</u></b>	B-13
<b><u>7.2 Corporate Transactions Involving a Change in Control</u></b>	B-13
<b><u>ARTICLE VIII DEFINITIONS</u></b>	B-14



**Table of Contents**

**AMENDED AND RESTATED**

**SALEM COMMUNICATIONS CORPORATION**

**1999 STOCK INCENTIVE PLAN**

**(AS AMENDED AND RESTATED THROUGH MAY 24, 2006)**

**ARTICLE I**

**PURPOSE OF PLAN**

The Company has adopted this Plan to promote the interests of the Company and its stockholders by using investment interests in the Company to attract, retain and motivate 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. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in *Article VIII*.

**ARTICLE II**

**EFFECTIVE DATE AND TERM OF PLAN**

**2.1 Term of Plan.** This Plan became effective as of the Effective Date and will continue in effect until the earlier of (a) the Expiration Date or (b) the date of any Plan termination pursuant to the provisions of *Section 7.2*, at which time this Plan shall automatically terminate.

**2.2 Effect on Awards.** Awards may be granted only during the Plan Term, but each Award granted during the Plan Term will remain in effect after the Expiration Date until such Award has been exercised, terminated or expired in accordance with its terms and the terms of this Plan.

**2.3 Stockholder Approval.** This Plan was initially approved by the Company's stockholders within 12 months after the Effective Date. The Second Amendment to the Plan was approved by Company's stockholders on June 11, 2003. The Third Amendment to the Plan was approved by the Company's stockholders on May 18, 2005. The Fourth Amendment to the Plan was approved by the Company's stockholders on May 24, 2006. The effectiveness of any Awards granted prior to such stockholder approval shall be subject to such stockholder approval.

**ARTICLE III**

**SHARES SUBJECT TO PLAN**

**3.1 *Number of Shares.*** The maximum number of shares of Common Stock that may be issued pursuant to Awards shall be 3,100,000, subject to adjustment as set forth in *Section 3.4*.

**3.2 *Source of Shares.*** The Common Stock to be issued under this Plan will be made available, at the discretion of the Board, either from authorized but unissued shares of Common Stock or from previously issued shares of Common Stock reacquired by the Company, including, without limitation, shares purchased on the open market.

**3.3 *Availability of Unused Shares.*** Shares of Common Stock subject to unexercised portions of any Award that expire, terminate or are canceled, and shares of Common Stock issued pursuant to an Award that are reacquired by the Company pursuant to this Plan or terms of the Award under which such shares were issued, will again become available for the grant of further Awards under this Plan. However, if the exercise price of, or withholding taxes incurred in connection with, an Award is paid with shares of Common Stock, or if shares of

B-1

## **Table of Contents**

Common Stock otherwise issuable pursuant to Awards are withheld by the Company in satisfaction of an exercise price or the withholding taxes incurred in connection with any exercise or vesting of an Award, then the number of shares of Common Stock available for issuance under the Plan will be reduced by the gross number of shares for which the Award is exercised or for which the Award vests, as applicable, and not by the net number of shares of Common Stock issued to the holder of such Award.

### **3.4 Adjustment Provisions.**

**(a) Adjustments.** If the outstanding shares of Common Stock are increased, decreased or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed in respect of such shares of Common Stock (or any stock or securities received with respect to such Common Stock), including without limitation through merger, consolidation, sale or exchange of all or substantially all of the assets of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, spin-off or similar transaction, then, subject to *Section 7.2*, an appropriate and proportionate adjustment may be made in (i) the maximum number and kind of shares subject to this Plan as provided in *Section 3.1*, (ii) the number and kind of shares or other securities subject to then outstanding Awards, and/or (iii) the price for each share or other unit of any other securities subject to, or measurement criteria applicable to, then outstanding Awards.

**(b) No Fractional Interests.** No fractional interests will be issued under this Plan resulting from any adjustments.

**(c) Adjustments Related to Company Stock.** To the extent any adjustments relate to stock or securities of the Company, such adjustments shall be made by the Administering Body, whose determination in that respect shall be final, binding and conclusive.

**(d) Right to Make Adjustment.** The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

**(e) Limitations.** No adjustment to the terms of an Incentive Stock Option shall be made unless such adjustment either (i) would not cause such Option to lose its status as an Incentive Stock Option or (ii) is agreed to in writing by the Administering Body and the Recipient.

**3.5 Reservation of Shares.** The Company will at all times reserve and keep available a number of shares of Common Stock equaling at least the total number of shares of Common Stock issuable pursuant to then outstanding Awards.

## **ARTICLE IV**

### **ADMINISTRATION OF PLAN**

#### **4.1 Administering Body.**

(a) **Plan Administration.** This Plan shall be administered by the Board or by a Committee of the Board appointed pursuant to *Section 4.1(b)*.

(b) **Administration by Committee.** The Board in its sole discretion may from time to time appoint a Committee (which may be a subcommittee of an existing committee of the Board) of not less than two (2) Board members to administer this Plan and, subject to applicable law, to exercise all of the powers, authority and discretion of the Board under this Plan. As long as the Board has delegated authority to administer this Plan to the Committee and the Company has a class of equity securities registered under Section 12 of the Exchange Act,

B-2

---

## Table of Contents

this Plan may be administered by the Committee comprised of not less than two (2) Board members appointed by the Board in its sole discretion from time to time, each of whom is (i) a Non-Employee Director, and (ii) in addition, if Awards are to be made to persons subject to Section 162(m) of the IRC and such Awards are intended to constitute Performance-Based Compensation, then each member of the Compensation Committee shall, in addition to being a Non-Employee Director, be an outside director as defined in the regulations adopted under Section 162(m) of the IRC. The Board may from time to time increase or decrease (but not below two) the number of members of the Committee, remove from membership on the Committee all or any portion of its members, and/or appoint such person or persons as it desires to fill any vacancy existing on the Committee, whether caused by removal, resignation or otherwise. The Board may disband the Committee at any time and reconstitute the Board the administration of this Plan.

### **4.2 Authority of Administering Body.**

**(a) Authority to Interpret Plan.** Subject to the express provisions of this Plan, the Administering Body shall have the power to implement (including the power to delegate such implementation to appropriate officers of the Company), interpret and construe this Plan and any Awards and Award Documents or other documents defining the rights and obligations of the Company and Recipients hereunder and thereunder, to determine all questions arising hereunder and thereunder, and to adopt and amend such rules and regulations for the administration hereof and thereof as it may deem desirable. The interpretation and construction by the Administering Body of any provisions of this Plan or of any Award or Award Document shall be conclusive and binding. Any action taken by, or inaction of, the Administering Body relating to this Plan or any Award or Award Document shall be within the absolute discretion of the Administering Body and shall be conclusive and binding upon all persons. Subject only to compliance with the express provisions hereof, the Administering Body may act in its absolute discretion in matters related to this Plan and any and all Awards and Award Documents.

**(b) Authority to Grant Awards.** Subject to the express provisions of this Plan, the Administering Body may from time to time in its discretion select the Eligible Persons to whom, and the time or times at which, Awards shall be granted or sold, the nature of each Award, the number of shares of Common Stock or the number of rights that make up or underlie each Award, the exercise price and period for the exercise of each Award, and such other terms and conditions applicable to each individual Award as the Administering Body shall determine. The Administering Body may grant at any time new Awards to an Eligible Person who has previously received Awards or other grants (including other stock options) regardless of whether such prior Awards or such other grants are still outstanding, have previously been exercised as a whole or in part, or are canceled in connection with the issuance of new Awards. The Administering Body may grant Awards singly, in combination or in tandem with other Awards, as it determines in its discretion. 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. The Administering Body may from time to time delegate authority to the Chief Executive Officer of the Company to grant Awards under this Plan, such authority shall not extend to (a) at any one time, authority to grant Awards covering more than 10,000 shares of Common Stock, (b) any Awards granted at less than Fair Market Value, (c) any Awards vesting in less than one year from the date of grant or (d) Awards to directors or executive officers of the Company who are (or would as of the date of the Award become) subject to Section 16 of the Exchange Act. The Administering Body may designate the Secretary of the Company or other Company employees to assist the Administering Body in the administration of the Plan, and may grant authority to such persons to execute Award Documents evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Administering Body or the Company.

**(c) Procedures.** Subject to the Company's Charter or bylaws or any Board resolution conferring authority on the Committee, any action of the Administering Body with respect to the administration of this Plan shall be taken pursuant to a majority vote of the authorized number of members of the Administering Body or by the unanimous written consent of its members; *provided, however*, that (i) if the Administering Body is the Committee and consists of two members, then actions of the Administering Body must be unanimous, and (ii) if the Administering Body is the Board, actions taken by the Board shall be valid if approved in accordance with applicable law.

## **Table of Contents**

**4.3 No Liability.** No member of the Board or the Committee or any designee thereof will be liable for any action or inaction with respect to this Plan or any Award or any transaction arising under this Plan or any Award, except in circumstances constituting bad faith of such member.

### **4.4 Amendments.**

**(a) Plan Amendment.** The Administering Body may, insofar as permitted by applicable law, rule or regulation, and subject to *Section 4.4(c)*, from time to time suspend or discontinue this Plan or revise or amend it in any respect whatsoever, and this Plan as so revised or amended will govern all Awards hereunder, including those granted before such revision or amendment. Without limiting the generality of the foregoing, the Administering Body is authorized to amend this Plan to comply with or take advantage of amendments to applicable laws, rules or regulations, including the Securities Act, Exchange Act, the IRC or the rules of any exchange or interdealer quotation system upon which the Common Stock is listed or traded. No stockholder approval of any amendment or revision shall be required unless (i) such approval is required by this Plan or by applicable law, rule or regulation or (ii) an amendment or revision to this Plan would materially increase the number of shares subject to this Plan (as adjusted under *Section 3.4*).

**(b) Award Amendments.** The Administering Body may, with the written consent of a Recipient, make such modifications in the terms and conditions of an Award as it deems advisable. Without limiting the generality of the foregoing, the Administering Body may, in its discretion with the written consent of the Recipient, at any time and from time to time after the grant of any Award accelerate or extend the vesting or exercise period of any Award as a whole or in part.

**(c) Limitation.** Except as otherwise provided in this Plan or in the applicable Award Document, no amendment, revision, suspension or termination of this Plan or any outstanding Award may impair or adversely affect any rights or obligations under any Award theretofore granted without the written consent of the Recipient to whom such Award was granted.

**4.5 Other Compensation Plans.** The adoption of this Plan shall not affect any other stock option, restricted stock, incentive or other compensation plans in effect from time to time for the Company, and this Plan shall not preclude the Company from establishing any other forms of incentive or other compensation for employees, directors, advisors or consultants of the Company, whether or not approved by stockholders.

**4.6 Plan Binding on Successors.** This Plan shall be binding upon the successors and assigns of the Company.

**4.7 References to Successor Statutes, Regulations and Rules.** Any reference in this Plan to a particular statute, regulation or rule shall also refer to any successor provision of such statute, regulation or rule.

**4.8 Issuances for Compensation Purposes Only.** This Plan is intended to constitute an employee benefit plan, as defined in Rule 405 promulgated under the Securities Act, and shall be administered accordingly.

**4.9 Invalid Provisions.** In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability shall not be construed as rendering any other provisions contained herein invalid or unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid and unenforceable provision were not contained herein.

**4.10 Governing Law.** This Plan shall be 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.

**4.11 Interpretation.** Headings herein are for convenience of reference only, do not constitute a part of this Plan, and will not affect the meaning or interpretation of this Plan. References herein to Sections or Articles are references to the referenced Section or Article hereof, unless otherwise specified.

B-4

**Table of Contents**

**ARTICLE V**

**GENERAL AWARD PROVISIONS**

**5.1 Participation in the Plan.**

**(a) Eligibility to Receive Awards.** A person shall be eligible to receive grants of Awards under this Plan if, at the time of the grant of the Award, such person is an Eligible Person or has received an offer of employment from the Company; *provided, however*, that Awards granted to a person who has received an offer of employment will terminate and be forfeited without consideration if the employment offer is not accepted within such time as may be specified by the Company. Status as an Eligible Person will not be construed as a commitment that any Award will be granted under this Plan to an Eligible Person or to Eligible Persons, generally.

**(b) Eligibility to Receive Incentive Stock Options.** Incentive Stock Options may be granted only to Eligible Persons meeting the employment requirements of Section 422 of the IRC.

**(c) Awards to Certain Eligible Persons.** Notwithstanding anything to the contrary herein, the Administering Body may, in order to fulfill the purposes of this Plan, modify grants of Awards to Recipients who are foreign nationals or employed outside of the United States to recognize differences in applicable law, tax policy or local custom.

**5.2 Award Documents.** Each Award granted under this Plan must be evidenced by an agreement duly executed on behalf of the Company and by the Recipient, or by 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 in its discretion determine. Awards will not be deemed made or binding upon the Company, and Recipients will have no rights thereto, until such an agreement is entered into between the Company and the Recipient or such a memorandum is delivered by the Company to the Recipient, but an Award may have an effective date on or after the date of grant but prior to the date of such an agreement or memorandum. Award Documents may but need not be identical and shall comply with and be subject to the terms and conditions of this Plan, a copy of which shall be provided to each Recipient and incorporated by reference into each Award Document. Any Award Document may contain such other terms, provisions and conditions not inconsistent with this Plan as may be determined by the Administering Body. In case of any conflict between this Plan and any Award Document, this Plan shall control.

**5.3 Exercise of Stock Options.** No Stock Option shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded. A Stock Option shall be deemed to be exercised when the Secretary or other designated officer of the Company receives written notice of such exercise from the Recipient, together with payment of the exercise price made in accordance with *Section 5.4* and any amounts required under *Section 5.11* or, with permission of the Administering Body, arrangement for such payment. Notwithstanding any other provision of this Plan, the Company and/or the Administering Body may impose, by rule and/or in Award Documents, such conditions upon the exercise of Stock Options (including without limitation conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements including, without limitation, Rule 16b-3 and Rule 10b-5 under the Exchange Act, any amounts required under *Section 5.11*, or any applicable section of the IRC.

**5.4 Payment For Awards.**



**(a) *Payment of Exercise Price.*** 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 hereunder by delivery of legal tender of the United States or payment of such other consideration as the Administering Body may from time to time deem acceptable in any particular instance.

**(b) *Company Assistance.*** Subject to applicable laws and regulations, the Company may assist any person to whom an Award is granted hereunder (including without limitation any officer or director of the Company) in

B-5

## **Table of Contents**

the payment of the purchase price or other amounts payable in connection with the receipt or exercise of that Award.

**(c) Cashless Exercise.** If permitted in any case by the Administering Body in its sole discretion, the exercise price for Awards may be paid by delivery of Common Stock to the Company by or on behalf of the person exercising the Award and duly endorsed in blank or accompanied by stock powers duly endorsed in blank, with signatures guaranteed in accordance with the Exchange Act if required by the Company, or retained by the Company from the stock otherwise issuable upon exercise or surrender of vested and/or exercisable Awards or other equity Awards previously granted to the Recipient and being exercised (if applicable) (in either case valued at Fair Market Value as of the exercise date); or such other consideration as the Administering Body may from time to time in the exercise of its discretion deem acceptable in any particular instance; *provided, however*, that, subject to applicable laws and regulations (i) the Company and/or the Administering Body may allow exercise of an Award in a broker-assisted or similar transaction in which the exercise price is not received by the Company until promptly after exercise, and/or (ii) the Administering Body may allow the Company to loan the exercise price to the person entitled to exercise the Award, if the exercise will be followed by a prompt sale of some or all of the underlying shares and a portion of the sale proceeds is dedicated to full payment of the exercise price and amounts required pursuant to *Section 5.11*.

**(d) No Precedent.** Recipients will have no rights to the assistance described in *Section 5.4(b)* or to the exercise techniques described in *Section 5.4(c)*, and the Company may offer or permit such assistance or techniques on an *ad hoc* basis to any Recipient without incurring any obligation to offer or permit such assistance or techniques on other occasions or to other Recipients.

**5.5 No Employment Rights.** Nothing contained in this Plan (or in Award Documents or in any other documents related to this Plan or to Awards granted hereunder) shall confer upon any Eligible Person or Recipient any right to continue in the employ of or engagement by the Company or any Affiliated Entity or constitute any contract or agreement of employment or engagement, or interfere in any way with the right of the Company or any Affiliated Entity to reduce such person's compensation or other benefits or to terminate the employment or engagement of such Eligible Person or Recipient, with or without cause. Except as expressly provided in this Plan or in any statement evidencing the grant of an Award pursuant to this Plan, the Company shall have the right to deal with each Recipient in the same manner as if this Plan and any such statement evidencing the grant of an Award pursuant to this Plan did not exist, including without limitation with respect to all matters related to the hiring, discharge, compensation and conditions of the employment or engagement of the Recipient. Any questions as to whether and when there has been a termination of a Recipient's employment or engagement, the reason (if any) for such termination, and/or the consequences thereof under the terms of this Plan or any statement evidencing the grant of an Award pursuant to this Plan shall be determined by the Administering Body and the Administering Body's determination thereof shall be final and binding.

### **5.6 Restrictions Under Applicable Laws and Regulations.**

**(a) Consents, Approvals.** All Awards granted under this Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the securities subject to Awards granted under this Plan upon any securities exchange or interdealer quotation system or under any federal, state or foreign law, or the consent or approval of any government or regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an Award or the issuance, if any, or purchase of shares in connection therewith, such Award may not be exercised as a whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. During the term of this Plan, the Company will use its reasonable efforts to seek to obtain from the appropriate governmental and regulatory agencies any requisite qualifications, consents, approvals or authorizations in order to issue and sell such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of this Plan. The inability of the Company to obtain any such qualifications, consents, approvals or authorizations it deems necessary shall relieve the Company of any liability

## **Table of Contents**

in respect of the nonissuance or sale of such stock as to which such qualifications, consents, approvals or authorizations pertain.

**(b) No Registration Obligation; Recipient Representations.** The Company shall be under no obligation to register or qualify the issuance of Awards or underlying securities under the Securities Act or applicable state securities laws. Unless the issuance of Awards and underlying securities have been registered under the Securities Act and qualified or registered under applicable state securities laws, the Company shall be under no obligation to issue any Awards or underlying securities unless the Awards and underlying securities may be issued pursuant to applicable exemptions from such registration or qualification requirements. In connection with any such exempt issuance, the Administering Body may require the Recipient to provide a written representation and undertaking to the Company, satisfactory in form and scope to the Company and upon which the Company may reasonably rely, that such Recipient is acquiring such Awards and underlying securities for such Recipient's own account as an investment and not with a view to, or for sale in connection with, the distribution of any such securities, and that such person will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act and other applicable law, and that if securities are issued without registration, a legend to this effect (together with any other legends deemed appropriate by the Administering Body) may be endorsed upon the securities so issued. The Company may also order its transfer agent to stop transfers of such securities. The Administering Body may also require the Recipient to provide the Company such information and other documents as it may request in order to satisfy the Company as to the investment sophistication and experience of the Recipient and as to any other conditions for compliance with any such exemptions from registration or qualification.

**5.7 Additional Conditions.** Any Award may also be subject to such other provisions (whether or not applicable to any other Award or Recipient) as the Administering Body deems appropriate, including without limitation provisions to assist the recipient in financing the purchase of Common Stock through the exercise of Stock Options, provisions to assist the Recipient in financing the purchase of Common Stock through the exercise of Stock Options, provisions for the forfeiture of or restrictions on resale or other disposition of securities acquired under any Award, provisions giving the Company the right to repurchase securities acquired under any Award in the event the Recipient elects to terminate employment with the Company or dispose of such securities, and provisions to comply with federal and state securities laws and federal and state income tax withholding requirements.

**5.8 No Privileges of Stock Ownership.** Except as otherwise set forth herein, a Recipient or a permitted transferee of an Award shall have no rights as a stockholder with respect to any shares issuable or issued in connection with the Award until the date the Recipient has delivered to the Company all amounts payable and performed all obligations required to be performed in connection with the exercise of the Award, and the Company has issued such shares. Status as an Eligible Person shall not be construed as a commitment that any Award will be granted under this Plan to an Eligible Person or to Eligible Persons generally. No person shall have any right, title or interest in any fund or in any specific asset (including shares of capital stock) of the Company by reason of any Award granted hereunder. Neither this Plan (or any documents related hereto) nor any action taken pursuant hereto shall be construed to create a trust of any kind or a fiduciary relationship between the Company and any person. To the extent that any person acquires a right to receive an Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

**5.9 Nonassignability.** Unless the Administering Body shall otherwise determine on a case-by-case basis, no Award granted under this Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, or (ii) subject to the final sentence of this Section 5.9, upon dissolution of marriage pursuant to a qualified domestic relations order. Unless the Administering Body shall otherwise determine on a case-by-case basis, during the lifetime of a Recipient, an Award granted to such person shall be exercisable only by the Recipient (or the Recipient's permitted transferee) or such person's guardian or legal representative. Notwithstanding the foregoing, (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

## **Table of Contents**

other Awards subject to transfer restrictions under the IRC) may not be assigned, transferred or exercisable in violation of Section 422(b)(5) of the IRC (or any comparable or successor provision) or the regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

### ***5.10 Information to Recipients.***

(a) The Company shall determine what, if any, financial and other information shall be provided to Recipients and when such financial and other information shall be provided after giving consideration to applicable federal and state laws, rules and regulations, including without limitation applicable federal and state securities laws, rules and regulations.

(b) The furnishing of financial and other information that is confidential to the Company shall be subject to the Recipient's agreement that the Recipient shall maintain the confidentiality of such financial and other information, shall not disclose such information to third parties, and shall not use the information for any purpose other than evaluating an investment in the Company's securities under this Plan. The Company may impose other restrictions on the access to and use of such confidential information and may require a Recipient to acknowledge the Recipient's obligations under this *Section 5.10(b)* (which acknowledgment shall not be a condition to Recipient's obligations under this *Section 5.10(b)*).

***5.11 Withholding Taxes.*** Whenever the granting, vesting or exercise of any Award, or the issuance of any Common Stock or other securities upon exercise of any Award or transfer thereof, gives rise to tax or tax withholding liabilities or obligations, the Company shall have the right to require the Recipient to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements arising in connection therewith. The Administering Body may, in the exercise of its discretion, allow satisfaction of tax withholding requirements by accepting delivery of shares of Common Stock of the Company or by withholding a portion of shares otherwise issuable in connection with an Award, in each case valued at Fair Market Value as of the date of such delivery or withholding.

***5.12 Legends on Awards and Stock Certificates.*** Each Award Document and each certificate representing securities acquired upon vesting or exercise of an Award shall be endorsed with all legends, if any, required by applicable federal and state securities and other laws to be placed on the Award Document and/or the certificate. The determination of which legends, if any, shall be placed upon Award Documents or the certificates shall be made by the Administering Body and such decision shall be final and binding.

### ***5.13 Effect of Termination of Employment on Awards.***

(a) ***Termination of Vesting.*** Awards will be exercisable by a Recipient (or the Recipient's successor-in-interest) following such Recipient's termination of employment with or service to the Company or any Affiliated Entity only to the extent that installments thereof had become exercisable on or prior to the date of such termination.

(b) ***Alteration of Vesting and Exercise Periods.*** Notwithstanding anything to the contrary herein, (i) the Administering Body may, in its discretion, designate shorter or longer periods for the vesting or exercise of any Award, or the lapse of transfer or other restrictions pertaining thereto, following a Recipient's termination of employment with the Company or any Affiliated Entity, *provided, however*, that any shorter periods determined by the Administering Body shall be effective only if provided for in the Award Document that evidences the grant to the Recipient of such Award or if such shorter period is agreed to in writing by the Recipient; and (ii) the Administering Body may, in its discretion, elect to accelerate the vesting of all or any portion of any Award that had not become exercisable on or prior to the date of such termination or to

extend the vesting period beyond the date of such termination.

**(c) *Leave of Absence.*** In the case of any employee on an approved leave of absence, the Administering Body may make such provision respecting continuance of Awards granted to such employee as the Administering Body in its discretion deems appropriate.

B-8

## **Table of Contents**

**5.14 Limits on Awards to Eligible Persons.** Notwithstanding any other provision of this Plan, in order for the compensation attributable to Awards hereunder to qualify as Performance-Based Compensation, no one Eligible Person shall be granted any Awards with respect to more than 100,000 shares of Common Stock in any one calendar year. The limitation set forth in this *Section 5.14* shall be subject to adjustment as provided in *Section 3.4* or under *Article VII*, but only to the extent such adjustment would not affect the status of compensation attributable to Awards hereunder as Performance-Based Compensation.

**5.15 Lock-Up Agreements.** Each Recipient agrees as a condition to receipt of an Award that, in connection with any public offering by the Company of its equity securities and upon the request of the Company and the principal underwriter (if any) in such public offering, any shares of Common Stock acquired or that may be acquired upon exercise or vesting of an Award may not be sold, offered for sale, encumbered, or otherwise disposed of or subjected to any transaction that will involve any sales of securities of the Company, without the prior written consent of the Company or such underwriter, as the case may be, for a period of not more than 365 days after the effective date of the registration statement for such public offering. Each Recipient will, if requested by the Company or the principal underwriter, enter into a separate agreement to the effect of this *Section 5.15*.

## **ARTICLE VI**

### **AWARDS**

#### **6.1 Stock Options.**

**(a) Nature of Stock Options.** Stock Options may be Incentive Stock Options or Nonqualified Stock Options.

**(b) Option Exercise Price.** The exercise price for each Stock Option shall be determined by the Administering Body as of the date such Stock Option is granted. The exercise price shall be no less than the Fair Market Value of the Common Stock subject to the Stock Option as of the date of grant. Subject to approval by the stockholders, the Administering Body may, with the consent of the Recipient and subject to compliance with statutory or administrative requirements applicable to Incentive Stock Options, amend the terms of any Stock Option to provide that the exercise price of the shares remaining subject to the Stock Option shall be reestablished at a price not less than 100% of the Fair Market Value of the Common Stock on the effective date of the amendment. No modification of any other term or provision of any Stock Option that is amended in accordance with the foregoing shall be required, although the Administering Body may, in its discretion, make such further modifications of any such Stock Option as are not inconsistent with this Plan.

**(c) Option Period and Vesting.** Stock Options granted hereunder shall vest and may be exercised as determined by the Administering Body, except that exercise of such Stock Options after termination of the Recipient's employment by or service to the Company shall be subject to *Section 5.13*. Each Stock Option granted hereunder and all rights or obligations thereunder shall expire on such date as shall be determined by the Administering Body, but not later than ten years after the date the Stock Option is granted (or, for Nonqualified Stock Options, such date later than ten years after the Stock Option is granted as shall be determined in the discretion of the Administering Body) and shall be subject to earlier termination as provided herein or in the Award Document. The Administering Body may, in its discretion at any time and from time to time after the grant of a Stock Option, accelerate vesting of such Stock Option as a whole or part by increasing the number of shares then purchasable, provided that the total number of shares subject to such Stock Option may not be increased. Except as otherwise provided herein, a Stock Option shall become exercisable, as a whole or in part, on the date or dates specified by the Administering Body and thereafter shall remain exercisable until the exercise, expiration or earlier termination of the Stock Option.

**(d) Termination.** Unless determined otherwise by the Administering Body in its sole discretion, Stock Options shall expire on the earliest of  
(i) one year from the date on which the Recipient ceases to be an Eligible

B-9

## **Table of Contents**

Person for any reason other than death; (ii) one year from the date of the Recipient's death; or (iii) with respect to each installment of such Stock Option, the fifth anniversary of the vesting date of such installment. If a Recipient who is an employee of the Company or any Affiliated Entity ceases for any reason to be such an employee, that portion of the Stock Option that has not yet vested shall terminate, unless the Administering Body accelerates the vesting schedule in its sole discretion (in which case, the Administering Body may impose whatever conditions it considers appropriate on the accelerated portion). Stock Options granted to a Recipient who is not such an employee may be made subject to such other termination provisions as determined appropriate by the Administering Body.

### ***(e) Special Provisions Regarding Incentive Stock Options.***

(i) Notwithstanding anything herein to the contrary, the exercise price and vesting period of any Stock Option intended to qualify as an Incentive Stock Option shall comply with the provisions of Section 422 of the IRC and the regulations thereunder. As of the Effective Date, such provisions require, among other matters, that (A) the exercise price must not be less than the Fair Market Value of the underlying stock as of the date the Incentive Stock Option is granted, and not less than 110% of the Fair Market Value as of such date in the case of a grant to a Significant Stockholder; and (B) that the Incentive Stock Option not be exercisable after the expiration of ten years from the date of grant of such Incentive Stock Option, or the expiration of five years from the date of grant in the case of an Incentive Stock Option granted to a Significant Stockholder.

(ii) If for any reason other than death or Permanent Disability, the employment or service of a Recipient of Incentive Stock Options with the Company or any Affiliated Entity terminates, such Recipient's Incentive Stock Options, whether or not vested, shall cease to qualify as such and will be treated as Nonqualified Stock Options as of the earlier of: (A) the date such Incentive Stock Options would expire in accordance with their terms had the Recipient remained employed with or in service to the Company or any Affiliated Entity; and (B) three months after the date of termination of the Recipient's employment or service.

(iii) If as a result of death or Permanent Disability, the employment or service of a Recipient of Incentive Stock Options with the Company or any Affiliated Entity terminates, such Recipient's Incentive Stock Options, whether or not vested, shall cease to qualify as such and will be treated as Nonqualified Stock Options as of the earlier of: (A) the date such Incentive Stock Options would expire in accordance with their terms had the Recipient remained employed with the Company or any Affiliated Entity; and (B) one year after the date of termination of the Recipient's employment or service.

(iv) The aggregate Fair Market Value (determined as of the respective date or dates of grant) of the Common Stock for which one or more Stock Options granted to any Recipient under this Plan (or any other option plan of the Company or any Parent Corporation or Subsidiary Corporation) may for the first time become exercisable as Incentive Stock Options under such plans during any one calendar year shall not exceed \$100,000.

(v) Award Documents evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to comply with the applicable provisions of Section 422 of the IRC.

(vi) Any Stock Options granted as Incentive Stock Options pursuant to this Plan that for any reason fail or cease to qualify as such shall be treated as Nonqualified Stock Options. If the limit described in *Section 6.1(e)(iv)* is exceeded, the earliest granted Stock Options will be treated as Incentive Stock Options, up to such limit.

### ***6.2 Performance Awards.***



(a) ***Grant of Performance Awards.*** The Administering Body shall determine in its discretion the pre-established, objective performance criteria (which need not be identical and may be established on an

B-10

## **Table of Contents**

individual or group basis) governing Performance Awards, the terms thereof, and the form and time of payment of Performance Awards.

**(b) Payment of Performance Awards.** Upon satisfaction of the conditions applicable to a Performance Award, payment will be made to the Recipient in shares of Common Stock valued at Fair Market Value as of the date payment is due.

### **6.3 Restricted Stock.**

**(a) Award of Restricted Stock.** The Administering Body shall determine the Purchase Price (if any), the terms of payment of the Purchase Price, the restrictions upon the Restricted Stock, and when such restrictions shall lapse.

**(b) Requirements of Restricted Stock.** All shares of Restricted Stock granted or sold pursuant to this Plan will be subject to the following conditions:

**(i) No Transfer.** The shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, alienated or encumbered until the restrictions are removed or expire;

**(ii) Certificates.** The Company may require that the certificates representing Restricted Stock granted or sold to a Recipient pursuant to this Plan remain in the physical custody of an escrow holder or the Company until all restrictions are removed or expire;

**(iii) Restrictive Legends.** Each certificate representing Restricted Stock granted or sold to a Recipient pursuant to this Plan will bear such legend or legends making reference to the restrictions imposed upon such Restricted Stock as the Company deems necessary or appropriate to enforce such restrictions; and

**(iv) Other Restrictions.** The Administering Body may impose such other conditions on Restricted Stock as the Administering Body may deem advisable, including, without limitation, restrictions under the Securities Act, under the Exchange Act, under the requirements of any stock exchange or interdealer quotation system upon which such Restricted Stock or shares of the same class are then listed or traded and under any blue sky or other securities laws applicable to such shares.

**(c) Lapse of Restrictions.** The restrictions imposed upon Restricted Stock will lapse in accordance with such terms or other conditions as are determined by the Administering Body.

**(d) Rights of Recipient.** Subject to the provisions of *Section 6.3(b)* and any restrictions imposed upon the Restricted Stock, the Recipient will have all rights of a stockholder with respect to the Restricted Stock granted or sold to such Recipient under this Plan, including, without limitation, the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

**(e) Termination of Employment.** Unless the Administering Body in its discretion determines otherwise, if a Recipient's employment with the Company or any Affiliated Entity terminates for any reason, all of the Recipient's Restricted Stock remaining subject to restrictions on the date of such termination of employment shall be repurchased by the Company at the Purchase Price (if any) paid by the Recipient to the Company, without interest or premium, and otherwise returned to the Company without consideration.

**6.4 Stock Appreciation Rights.**

**(a) Granting of Stock Appreciation Rights.** The Administering Body may at any time and from time to time approve the grant to Eligible Persons of Stock Appreciation Rights, related or unrelated to Stock Options.

**(b) Stock Appreciation Rights Related to Options.**

(i) A Stock Appreciation Right granted in connection with a Stock Option granted under this Plan will entitle the holder of the related Stock Option, upon exercise of the Stock Appreciation Right, to surrender

## **Table of Contents**

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 computed pursuant to *Section 6.4(b)(iii)*. Such Stock Option will, to the extent surrendered, then cease to be exercisable.

(ii) A Stock Appreciation Right granted in connection with a Stock Option hereunder will be exercisable only when, and only to the extent that, the related Stock Option is exercisable, will not be transferable except to the extent that such related Stock Option may be transferable, will not expire later than the underlying Stock Option, and will be exercisable only when the Fair Market Value of the Common Stock subject to the underlying Stock Option exceeds the exercise price of such Stock Option.

(iii) Upon the exercise of a Stock Appreciation Right related to a Stock Option, the Recipient will be entitled to receive payment of an amount determined by multiplying (A) the difference obtained by subtracting the exercise price of a share of Common Stock specified in the related Stock Option from the Fair Market Value of a share of Common Stock on the date of exercise of such Stock Appreciation Right (or as of such other date or as of the occurrence of such event as may have been specified in the instrument evidencing the grant of the Stock Appreciation Right), by (B) the number of shares as to which such Stock Appreciation Right is exercised.

**(c) *Stock Appreciation Rights Unrelated to Options.*** The Administering Body may grant Stock Appreciation Rights unrelated to Stock Options to Eligible Persons. Section 6.4(b)(iii) shall be used to determine the amount payable at exercise under such Stock Appreciation Right, except that in lieu of the exercise price specified in the related Stock Option, the initial base amount specified in the Award shall be used.

**(d) *Limits.*** Notwithstanding the foregoing, the Administering Body, in its discretion, may place a dollar limitation on the maximum amount that will be payable upon the exercise of a Stock Appreciation Right under this Plan.

**(e) *Payments.*** Payment of the amount determined under the foregoing provisions may be made solely in whole shares of Common Stock valued at their Fair Market Value on the date of exercise of the Stock Appreciation Right or, alternatively, at the sole discretion of the Administering Body, in cash or in a combination of cash and shares of Common Stock as the Administering Body deems advisable. The Administering Body has full discretion to determine the form in which payment of a Stock Appreciation Right will be made and to consent to or disapprove the election of a Recipient to receive cash in full or partial settlement of a Stock Appreciation Right. If the Administering Body decides to make full payment in shares of Common Stock, and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

**6.5 *Stock Payments.*** The Administering Body may approve Stock Payments of the Company's 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, on such terms and conditions as the Administering Body may determine. Stock Payments will replace such cash payments at the Fair Market Value of the Common Stock on the date payment is due.

**6.6 *Dividend Equivalents.*** The Administering Body may grant Dividend Equivalents to any Recipient who has received a Stock Option, Stock Appreciation Right or other Award denominated in shares of Common Stock. Dividend Equivalents may be paid in cash, Common Stock or other Awards; the amount of Dividend Equivalents paid other than in cash shall 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 shall be computed as of each dividend record date and shall be payable to recipients thereof at such time as the Administering Body may determine. Notwithstanding the foregoing, the payment of a Dividend Equivalent with respect to a Stock Option intended to constitute Performance-Based Compensation shall not be contingent upon the exercise of such Stock Option.

B-12

## **Table of Contents**

**6.7 Stock Bonuses.** The Administering Body may issue shares of 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.

**6.8 Stock Sales.** The Administering Body may sell to Eligible Persons shares of Common Stock on such terms and conditions as the Administering Body may determine.

**6.9 Phantom Stock.** The Administering Body may grant Awards of Phantom Stock. Phantom Stock is a cash bonus granted under this Plan measured by the Fair Market Value of a specified number of shares of 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.

**6.10 Other Stock-Based Benefits.** The Administering Body is authorized to grant Other Stock-Based Benefits. Other Stock-Based Benefits are any arrangements granted under this Plan not otherwise described above that (a) by their terms might involve the issuance or sale of 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 Common Stock.

**6.11 Termination of Employment.** Except as otherwise provided for in this Plan or determined by the Administering Body in its discretion, all Awards granted to a Recipient, and all of such Recipient's rights thereunder, shall terminate upon termination for any reason of such Recipient's employment with the Company or any Affiliated Entity (or cessation of any other service relationship between the Recipient and the Company or any Affiliated Entity in place as of the date the Award was granted).

## **ARTICLE VII**

### **REORGANIZATIONS**

**7.1 Corporate Transactions Not Involving a Change in Control.** If the Company shall consummate any Reorganization not involving a Change of Control in which holders of shares of Common Stock are entitled to receive in respect of such shares any securities, cash or other consideration (including without limitation a different number of shares of Common Stock), each Award outstanding under this Plan shall thereafter be exercisable, in accordance with this Plan, only for the kind and amount of securities, cash and/or other consideration receivable upon such Reorganization by a holder of the same number of shares of Common Stock as are subject to that Award immediately prior to such Reorganization, and any adjustments will be made to the terms of the Award in the sole discretion of the Administering Body as it may deem appropriate to give effect to the Reorganization.

**7.2 Corporate Transactions Involving a Change in Control.** Unless otherwise set forth in an Award Document or in this *Section 7.2*, as of the effective time and date of any Change in Control, this Plan and any then outstanding Awards (whether or not vested) shall automatically terminate unless (a) provision is made in writing in connection with such transaction for the continuance of this Plan and for the assumption of such Awards, or for the substitution for such Awards of new awards covering the securities of a successor entity or an affiliate thereof, with appropriate adjustments as to the number and kind of securities and exercise prices or other measurement criteria, in which event this Plan and such outstanding Awards shall continue or be replaced, as the case may be, in the manner and under the terms so provided; or (b) the Board otherwise shall provide in writing for such adjustments as it deems appropriate in the terms and conditions of the then-outstanding Awards (whether or not vested), including without limitation (i) accelerating the vesting of outstanding Awards and/or (ii) providing for the cancellation of Awards and their automatic conversion into the right to receive the securities, cash or other consideration that a holder of the shares underlying such Awards would have been entitled to receive upon consummation of such Change in Control had such shares been issued and

outstanding immediately prior to the effective date and time of the Change in Control (net of the appropriate option exercise

B-13

**Table of Contents**

prices). If, pursuant to the foregoing provisions of this *Section 7.2*, this Plan and the Awards shall terminate by reason of the occurrence of a Change in Control without provision for any of the actions described in clause (a) or (b) hereof, then subject to *Section 5.13* and *Section 6.11*, any Recipient holding outstanding Awards shall have the right, at such time immediately prior to the consummation of the Change in Control as the Board shall designate, to exercise or receive the full benefit of the Recipient's Awards to the full extent not theretofore exercised, including any installments which have not yet become vested.

**ARTICLE VIII**

**DEFINITIONS**

Capitalized terms used in this Plan and not otherwise defined shall have the meanings set forth below:

***Administering Body*** means the Board as long as no Committee has been appointed and delegated authority by the Board and shall mean the Committee as long as the Committee is appointed and has been delegated authority and has not been disbanded by the Board.

***Affiliated Entity*** means any Parent Corporation of the Company or Subsidiary Corporation of the Company.

***Award*** means any Stock Option, Performance Award, Restricted Stock, Stock Appreciation Right, Stock Payment, Stock Bonus, Stock Sale, Phantom Stock, Dividend Equivalent, or Other Stock-Based Benefit granted or sold to an Eligible Person under this Plan.

***Award Document*** means the agreement or confirming memorandum setting forth the terms and conditions of an Award.

***Board*** means the Board of Directors of the Company.

***Change in Control*** means the following and shall be deemed to occur if any of the following events occur:

(a) Any Person (other than a Permitted Transferee) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors; or

(b) Individuals who, as of the effective date hereof, constitute the Board of Directors of the Company (the **Incumbent Board**) cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any individual who becomes a director after the effective date hereof whose election, or nomination for election by the Company's stockholders, is approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered to be a member of the Incumbent Board unless that individual was nominated or elected by any Person having the power to exercise, through beneficial ownership, voting agreement and/or proxy, twenty percent



## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

(20%) or more of either the outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors, in which case that individual shall not be considered to be a member of the Incumbent Board unless such individual's election or nomination for election by the Company's stockholders is approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board; or

(c) Consummation by the Company of the sale or other disposition by the Company of all or substantially all of the Company's assets or a reorganization or merger or consolidation of the Company with any other person, entity or corporation, other than:

(i) a reorganization or merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto (or, in the case of a reorganization or merger or

B-14

**Table of Contents**

consolidation that is preceded or accomplished by an acquisition or series of related acquisitions by any Person, by tender or exchange offer or otherwise, of voting securities representing five percent (5%) or more of the combined voting power of all securities of the Company, immediately prior to such acquisition or the first acquisition in such series of acquisitions) continuing to represent, either by remaining outstanding or by being converted into voting securities of another entity, more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such reorganization or merger or consolidation (or series of related transactions involving such a reorganization or merger or consolidation); or

(ii) a reorganization or merger or consolidation effected to implement a recapitalization or reincorporation of the Company (or similar transaction) that does not result in a material change in beneficial ownership of the voting securities of the Company or its successor; or

(d) Approval by the Stockholders of the Company or any order by a court of competent jurisdiction of a plan of liquidation of the Company.

***Commission*** means the Securities and Exchange Commission.

***Common Stock*** means the Class A common stock of the Company, as constituted on the Effective Date of this Plan, and as thereafter adjusted as a result of any one or more events requiring adjustment of outstanding Awards under *Section 3.4* above.

***Company*** means Salem Communications Corporation, a Delaware corporation.

***Committee*** means the committee appointed by the Board to administer this Plan pursuant to *Section 4.1*.

***Dividend Equivalent*** means a right granted by the Company under *Section 6.6* to a holder of a Stock Option, Stock Appreciation Right or other Award denominated in shares of Common Stock to receive from the Company during the Applicable Dividend Period payments equivalent to the amount of dividends payable to holders of the number of shares of Common Stock underlying such Stock Option, Stock Appreciation Right, or other Award.

***Effective Date*** means May 25, 1999, which is the date this Plan was initially adopted by the Board.

***Eligible Person*** means any director, officer, employee, consultant or advisor of the Company or of any Affiliated Entity.

***ERISA*** means the Employee Retirement Income Security Act of 1974, as amended.

***Exchange Act*** means the Securities Exchange Act of 1934, as amended.

**Expiration Date** means the 10th anniversary of the Effective Date.

**Fair Market Value** of a share of the Company's capital stock as of a particular date shall be (i) if the stock is listed on an established stock exchange or exchanges (including for this purpose, the Nasdaq National Market), the average of the highest and lowest sale prices of the stock quoted for such date as reported in the Transactions Index of each such exchange, as published in *The Wall Street Journal* and determined by the Administering Body, or, if no sale price was quoted in any such Index for such date, then as of the next preceding date on which such a sale price was quoted; or (ii) if the stock is not then listed on an exchange or the Nasdaq National Market, the average of the closing bid and asked prices per share for the stock in the over-the-counter market as quoted on The Nasdaq Small Cap Market on such date (in the case of (i) or (ii), subject to adjustment as and if necessary and appropriate to set an exercise price not less than 100% of the fair market value of the stock on the date an option is granted); or (iii) if the stock is not then listed on an exchange or quoted in the over-the-counter market, an amount determined in good faith by the Administering Body; *provided, however*, that (A) when appropriate, the Administering Body, in determining Fair Market Value of capital stock of the

## **Table of Contents**

Company, may take into account such other factors as it may deem appropriate under the circumstances and (B) if the stock is traded on the Nasdaq Small Cap Market and both sales prices and bid and asked prices are quoted or available, the Administering Body may elect to determine Fair Market Value under either clause (i) or (ii) above. Notwithstanding the foregoing, the Fair Market Value of capital stock for purposes of grants of Incentive Stock Options shall be determined in compliance with applicable provisions of the IRC. The Fair Market Value of rights or property other than capital stock of the Company means the fair market value thereof as determined by the Committee on the basis of such factors as it may deem appropriate.

***Incentive Stock Option*** means a Stock Option that qualifies as an incentive stock option under Section 422 of the IRC, or any successor statute thereto.

***IRC*** means the Internal Revenue Code of 1986, as amended.

***Non-Employee Director*** means a director of the Company who qualifies as a Non-Employee Director under Rule 16b-3 under the Exchange Act.

***Nonqualified Stock Option*** means a Stock Option that is not an Incentive Stock Option.

***Other Stock-Based Benefits*** means an Award granted under *Section 6.9* of this Plan.

***Parent Corporation*** means any Parent Corporation as defined in Section 424(e) of the IRC.

***Payment Event*** means the event or events giving rise to the right to payment of a Performance Award.

***Performance Award*** means an Award payable in Common Stock that vests and becomes payable over a period of time upon attainment of pre-established, objective performance criteria established in connection with the grant of the Award.

***Performance-Based Compensation*** means performance-based compensation as described in Section 162(m) of the IRC. If the amount of compensation an Eligible Person will receive under any Award is not based solely on an increase in the value of Common Stock after the date of grant or award, the Committee, in order to qualify an Award as performance-based compensation under Section 162(m) of the IRC, can condition the grant, award, vesting, or exercisability of such an Award on the attainment of a pre-established, objective performance goal. For this purpose, a pre-established, objective performance goal may include one or more of the following performance criteria: (a) cash flow, (b) earnings per share (including earning before interest, taxes, depreciation and amortization), (c) return on equity, (d) total stockholder return, (e) return on capital, (f) return on assets or net assets, (g) income or net income, (h) operating income or net operating income, (i) operating margin, (j) return on operating revenue, and (k) any other similar performance criteria.

## Edgar Filing: SALEM COMMUNICATIONS CORP /DE/ - Form DEF 14A

***Permanent Disability*** means that the Recipient becomes physically or mentally incapacitated or disabled so that the Recipient is unable to perform substantially the same services as the Recipient performed prior to incurring such incapacity or disability (the Company, at its option and expense, being entitled to retain a physician to confirm the existence of such incapacity or disability, and the determination of such physician to be binding upon the Company and the Recipient), and such incapacity or disability continues for a period of three consecutive months or six months in any 12-month period or such other period(s) as may be determined by the Administering Body with respect to any Award; *provided, however*, that for purposes of determining the period during which an Incentive Stock Option may be exercised pursuant to *Section 6.1(e)*, Permanent Disability shall mean permanent and total disability as defined in Section 22(e)(3) of the IRC.

***Permitted Transferee*** means: (a) Edward G. Atsinger III, Stuart W. Epperson, or Nancy A. Epperson; (b) the spouse, child or grandchild of any of the persons described in (a); (c) a revocable trust funded by any of the persons described in (a); or (d) a trust for the benefit of any of the persons described in (a) so long as one of the persons described in (a) is the trustee of such trust.

B-16

**Table of Contents**

**Person** means any person, entity or group, within the meaning of Section 13(d) or 14(d) of the Exchange Act, but excluding (i) the Company and its subsidiaries, (ii) any employee stock ownership or other employee benefit plan maintained by the Company that is qualified under ERISA and (iii) an underwriter or underwriting syndicate that has acquired the Company's securities solely in connection with a public offering thereof.

**Phantom Stock** means an Award granted under *Section 6.9* of this Plan.

**Plan** means this Amended and Restated 1999 Stock Incentive Plan of the Company (as amended and restated through May 24, 2006).

**Plan Term** means the period during which this Plan remains in effect (commencing the Effective Date and ending on the Expiration Date).

**Purchase Price** means the purchase price (if any) to be paid by a Recipient for Restricted Stock as determined by the Committee (which price shall be at least equal to the minimum price required under applicable laws and regulations for the issuance of Common Stock which is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met).

**Recipient** means an Eligible Person who has received an Award under this Plan.

**Reorganization** means any merger, consolidation or other reorganization.

**Restricted Stock** means Common Stock that is the subject of an Award made under *Section 6.3* and that is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met, as set forth in this Plan and in any statement evidencing the grant of such Award.

**Rule 16b-3** means Rule 16b-3 under the Exchange Act.

**Second Amendment to the Plan** means the Second Amendment to the Amended and Restated Salem Communications Corporation 1999 Stock Incentive Plan, dated as of June 11, 2003, which amended the Plan to increase the number of shares of Common Stock available under the Plan, among other things.

**Securities Act** means the Securities Act of 1933, as amended.

**Significant Stockholder** is an individual who, at the time a Stock Option is granted to such individual under this Plan, owns more than ten percent (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 Section 424(d) of the IRC).

**Stock Appreciation Right** means a right granted under *Section 6.4* to receive a payment that is measured with reference to the amount by which the Fair Market Value of a specified number of shares of Common Stock appreciates from a specified date, such as the date of grant of the Stock Appreciation Right, to the date of exercise.

**Stock Bonus** means an issuance or delivery of unrestricted or restricted shares of Common Stock under *Section 6.7* of this Plan as a bonus for services rendered or for any other valid consideration under applicable law.

**Stock Option** means a right to purchase stock of the Company granted under *Section 6.1* of this Plan.

**Stock Payment** means a payment in shares of the Company's Common Stock to replace all or any portion of the compensation or other payment (other than base salary) that would otherwise become payable to the Recipient in cash.

**Stock Sale** means a sale of Common Stock to an Eligible Person under *Section 6.8* of this Plan.

**Subsidiary Corporation** means any Subsidiary Corporation as defined in Section 424(f) of the IRC.

**Table of Contents**

***FORM OF PROXY CARD FOR CLASS A COMMON STOCK***

**SALEM COMMUNICATIONS CORPORATION**

**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 24, 2006**

**Solicited on Behalf of the Board of Directors**

The undersigned hereby authorizes Edward G. Atsinger III and Jonathan L. Block, and each of them individually, with power of substitution, to vote and otherwise represent all of the shares of Class A common stock of Salem Communications Corporation ( "Salem" ), held of record by the undersigned, at the Annual Meeting of Stockholders of Salem to be held at the Westlake Village Inn, 31943 Agoura Road, Westlake Village, California 91361, on Wednesday, May 24, 2006, at 9:30 a.m. local time, and any adjournment(s) thereof, as indicated on the reverse side hereof.

The undersigned acknowledges receipt of the Notice of Annual Meeting and Proxy Statement dated, in each case, April 24, 2006. All other proxies heretofore given by the undersigned to vote shares of Salem's Class A common stock are expressly revoked.

The shares represented by this proxy will be voted as described on the reverse hereof by the stockholder. If not otherwise directed, this proxy will be voted **FOR** the election as directors of all nominees nominated in Item 1 for which the stockholder is entitled to vote, **FOR** the proposed amendment to the Amended and Restated 1999 Stock Incentive Plan in Item 2, **FOR** the re-approval of the award limitation provision in Salem's Amended and Restated 1999 Stock Incentive Plan in Item 3, and **FOR** the ratification of Ernst & Young LLP as Salem's independent registered public accounting firm in Item 4.

Address Change: \_\_\_\_\_ SALEM COMMUNICATIONS CORPORATION I plan to attend the Annual Meeting.  
\_\_\_\_\_ P.O. BOX 11213  
\_\_\_\_\_ NEW YORK, N.Y. 10203-0213

To include any comments,  
please mark this box.

(Continued, and to be signed and dated on the reverse side.)



**Table of Contents**

Ú DETACH PROXY CARD HERE Ú

Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

Votes MUST be indicated x in Black or Blue ink.

**The BOARD OF DIRECTORS recommends a vote FOR all proposals.**

1. To elect eight (8) members to the Board of Directors of Salem:	<b>FOR</b> all nominees listed below for whom stockholder is entitled to vote.	<b>WITHHOLD AUTHORITY</b> to vote for all nominees listed below for whom stockholder is entitled to vote.	<b>* EXCEPTIONS</b>
			..

Nominees: Stuart W. Epperson	Edward G. Atsinger III	David Davenport	Eric H. Halvorson
Roland S. Hinz	Paul Pressler	Richard A. Riddle	Dennis M. Weinberg

The holders of Salem's Class A common stock are entitled to vote on the election of the two additional nominees as independent directors, Messrs. Davenport and Pressler.

**(INSTRUCTIONS. To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below.)**

\* Exceptions \_\_\_\_\_

2. Approval to amend Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan) to: (a) eliminate the requirement that the re-pricing of options issued under the Plan be approved by the duly authorized vote of a majority of all outstanding Salem shares, and (b) permit Salem to make loans to qualified persons granted options under the Plan for the purpose of exercising granted options.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..
3. Re-approval of the provision in the Plan establishing the maximum number of shares of Class A common stock available under awards to a single participant in any one calendar year.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..
4. Ratification of the selection of Ernst & Young LLP as Salem's independent registered public accounting firm for the fiscal year ending December 31, 2006.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..

At their discretion, the proxies are authorized to consider and vote upon such other business as may properly come before the meeting or any adjournment thereof.

To change your address, please mark this box and insert your new address in the space provided on the reverse side of this card.

**SCAN LINE**

Please sign exactly as your name appears hereon. When signing in a representative capacity, please give full title.

**ADDRESS AREA**

Date: \_\_\_\_\_

\_\_\_\_\_  
Share Owner sign here

\_\_\_\_\_  
Co-Owner sign here

Table of Contents

*FORM OF PROXY CARD FOR CLASS B COMMON STOCK*

**SALEM COMMUNICATIONS CORPORATION**

**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 24, 2006**

**Solicited on Behalf of the Board of Directors**

The undersigned hereby authorizes Edward G. Atsinger III and Jonathan L. Block, and each of them individually, with power of substitution, to vote and otherwise represent all of the shares of Class B common stock of Salem Communications Corporation ( "Salem" ), held of record by the undersigned, at the Annual Meeting of Stockholders of Salem to be held at the Westlake Village Inn, 31943 Agoura Road, Westlake Village, California 91361, on Wednesday, May 24, 2006, at 9:30 a.m. local time, and any adjournment(s) thereof, as indicated on the reverse side hereof.

The undersigned acknowledges receipt of the Notice of Annual Meeting and Proxy Statement dated, in each case, April 24, 2006. All other proxies heretofore given by the undersigned to vote shares of Salem's Class B common stock are expressly revoked.

The shares represented by this proxy will be voted as described on the reverse hereof by the stockholder. If not otherwise directed, this proxy will be voted **FOR** the election as directors of all nominees nominated in Item 1 for which the stockholder is entitled to vote, **FOR** the proposed amendment to the Amended and Restated 1999 Stock Incentive Plan in Item 2, **FOR** the re-approval of the award limitation provision in Salem's Amended and Restated 1999 Stock Incentive Plan in Item 3, and **FOR** the ratification of Ernst & Young LLP as Salem's independent registered public accounting firm in Item 4.

Address Change:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

SALEM COMMUNICATIONS CORPORATION  
P.O. BOX 11213  
NEW YORK, N.Y. 10203-0213

I plan to attend the Annual Meeting.

To change your address, please mark this box and insert your new address in the space provided to the left side of this card.

To include any comments,  
please mark this box.

(Continued, and to be signed and dated on the reverse side.)

**Table of Contents**

Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

Votes MUST be indicated x in Black or Blue ink.

**The BOARD OF DIRECTORS recommends a vote FOR all proposals.**

1. To elect six (6) members to the Board of Directors of Salem:	<b>FOR</b> all nominees listed below for whom stockholder is entitled to vote.	<b>WITHHOLD AUTHORITY</b> to vote for all nominees listed below for whom stockholder is entitled to vote.	<b>* EXCEPTIONS</b> ..
---	--	---	---------------------------

Nominees: Stuart W. Epperson  Roland S. Hinz	Edward G. Atsinger III  Richard A. Riddle	Eric H. Halvorson  Dennis M. Weinberg
--	---	---

The holders of Salem's Class A common stock are entitled to vote on the election of the two additional nominees as independent directors, Messrs. Davenport and Pressler.

**(INSTRUCTIONS. To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below.)**

\* Exceptions \_\_\_\_\_

2. Approval to amend Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan) to: (a) eliminate the requirement that the re-pricing of options issued under the Plan be approved by the duly authorized vote of a majority of all outstanding Salem shares, and (b) permit Salem to make loans to qualified persons granted options under the Plan for the purpose of exercising granted options.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..
3. Re-approval of the provision in the Plan establishing the maximum number of shares of Class A common stock available under awards to a single participant in any one calendar year.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..
4. Ratification of the selection of Ernst & Young LLP as Salem's independent registered public accounting firm for the fiscal year ending December 31, 2006.	<b>FOR</b> ..	<b>AGAINST</b> ..	<b>ABSTAIN</b> ..

At their discretion, the proxies are authorized to consider and vote upon such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name appears hereon. When signing in a representative capacity, please give full title.

[ADDRESS AREA]

Date: \_\_\_\_\_

\_\_\_\_\_  
Share Owner sign here

\_\_\_\_\_  
Co-Owner sign here