

SALEM COMMUNICATIONS CORP /DE/  
Form DEF 14A  
April 24, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION**  
Washington, D.C. 20549  
**SCHEDULE 14A**

OMB APPROVAL  
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**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant  **x**  
Filed by a Party other than the Registrant  **o**

Check the appropriate box:

- o** Preliminary Proxy Statement
- o** **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x** Definitive Proxy Statement
- o** Definitive Additional Materials
- o** Soliciting Material Pursuant to Rule §240.14a-12

**SALEM COMMUNICATIONS CORPORATION**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x** No fee required.
- o** Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

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2. Aggregate number of securities to which transaction applies:

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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):

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4. Proposed maximum aggregate value of transaction:

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1. Amount Previously Paid:

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2. Form, Schedule or Registration Statement No.:

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3. Filing Party:

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4. Date Filed:

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**Camarillo, CA 93012**

**(805) 987-0400**

April 24, 2009

Dear Stockholder:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders (the Annual Meeting ) of Salem Communications Corporation ( Salem ). The Annual Meeting is scheduled to be held on Wednesday, June 3, 2009, 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 election of the seven persons named in the accompanying proxy statement 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. A proposal to amend Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan ) to extend the expiration date of the Plan for a period of ten (10) years from May 25, 2009, through May 25, 2019;
3. A proposal to re-approve the material terms of the performance criteria of the Plan; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The board of directors recommends that you vote **FOR** the election of the slate of director nominees, **FOR** the extension of the term of the Plan, and **FOR** the re-approval of the material terms of the performance criteria of the Plan. Please refer to the Proxy Statement for detailed information on 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 vote your shares on-line, by telephone or by signing, dating and returning 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, 2009.

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

*Chief Executive Officer*

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 3, 2009: Our proxy statement for the 2009 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2008 are available at**

*<http://bnymellon.mobular.net/bnymellon/salm>*

**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 Christopher J. Henderson of Salem at (805) 987-0400.**

**PLEASE VOTE YOUR SHARES**

**ON-LINE, BY TELEPHONE OR BY  
SIGNING, DATING AND RETURNING  
THE ENCLOSED PROXY CARD TODAY.**

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**4880 Santa Rosa Road  
Camarillo, CA 93012  
(805) 987-0400**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on June 3, 2009**

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NOTICE IS HEREBY GIVEN that the 2009 Annual Meeting of Stockholders (the Annual Meeting ) of Salem Communications Corporation ( Salem ) will be held on Wednesday, June 3, 2009, 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 the seven persons named in the accompanying proxy statement 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 extend the expiration date of the Plan for a period of ten (10) years from May 25, 2009, through May 25, 2019;
3. To re-approve the material terms of the performance criteria of the Plan; and

4. 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 April 9, 2009, 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 review the accompanying proxy card and either vote by (a) internet or by telephone as instructed in this proxy statement, or (b) by signing, dating and returning your completed proxy 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.

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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,

CHRISTOPHER J. HENDERSON

*Secretary*

Camarillo, California

April 24, 2009

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 3, 2009: Our proxy statement for the 2009 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2008 are available at**  
*<http://bnymellon.mobular.net/bnymellon/salm>*

**YOUR VOTE IS IMPORTANT.  
TO VOTE YOUR SHARES, PLEASE VOTE  
ONLINE, BY TELEPHONE OR BY  
SIGNING AND DATING THE ENCLOSED PROXY CARD  
AND MAILING IT PROMPTLY  
IN THE ENCLOSED RETURN ENVELOPE.**

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**SALEM COMMUNICATIONS CORPORATION**

**4880 Santa Rosa Road**

**Camarillo, CA 93012**

**(805) 987-0400**

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**PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
To Be Held on June 3, 2009**

**TABLE OF CONTENTS**

|                                                                                                                 | <u>Page No.</u> |
|-----------------------------------------------------------------------------------------------------------------|-----------------|
| INTRODUCTION                                                                                                    | 1               |
| INFORMATION REGARDING VOTING AT THE ANNUAL MEETING                                                              | 1               |
| General                                                                                                         | 1               |
| Record Date, Quorum and Voting                                                                                  | 2               |
| Electronic Access to Proxy Materials                                                                            | 2               |
| Solicitation                                                                                                    | 3               |
| Householding                                                                                                    | 3               |
| THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS                                                                   | 3               |
| Board of Directors                                                                                              | 3               |
| Director Independence and Executive Sessions                                                                    | 5               |
| Committees of the Board of Directors                                                                            | 6               |
| Audit Committee                                                                                                 | 6               |
| Compensation Committee                                                                                          | 6               |
| Nominating and Corporate Governance Committee                                                                   | 7               |
| Director Attendance at Board Meetings and 2008 Annual Meeting of Stockholders                                   | 8               |
| Communications Between Stockholders and the Board                                                               | 9               |
| Financial Code of Conduct                                                                                       | 9               |
| Executive Officers                                                                                              | 9               |
| EXECUTIVE COMPENSATION                                                                                          | 10              |
| Summary Compensation Table                                                                                      | 10              |
| Outstanding Equity Awards at Fiscal Year-End                                                                    | 12              |
| Material Terms of Company's Non-Qualified Deferred Compensation Plan                                            | 12              |
| Material Terms of NEO Employment Agreements Providing For Payment to NEOs upon Termination or Change in Control | 13              |
| Securities Authorized for Issuance Under Equity Compensation Plans                                              | 14              |
| DIRECTOR COMPENSATION                                                                                           | 15              |
| AUDIT COMMITTEE REPORT                                                                                          | 17              |
| SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT                                                  | 19              |
| TRANSACTIONS WITH RELATED PERSONS                                                                               | 21              |
| Purchase of Transmitter Sites                                                                                   | 21              |
| Leases with Principal Stockholders                                                                              | 22              |
| Radio Stations Owned by the Eppersons                                                                           | 23              |
| Radio Stations Owned by Mr. Hinz                                                                                | 23              |
| Truth for Life - Mr. Hinz and Mr. Weinberg                                                                      | 23              |
| Split-Dollar Life Insurance                                                                                     | 23              |



|                                                                | <u>Page No.</u> |
|----------------------------------------------------------------|-----------------|
| THE COMPANY'S RELATIONSHIP WITH ITS INDEPENDENT REGISTERED     |                 |
| PUBLIC ACCOUNTING FIRM                                         | 25              |
| Principal Accountant Fees And Services                         | 25              |
| Audit Committee's Pre-Approval Policies And Procedures         | 25              |
| PROPOSAL 1 - ELECTION OF DIRECTORS                             | 26              |
| Vote Required and Board of Directors' Recommendation           | 26              |
| PROPOSAL 2 - EXTENSION OF TERM OF AMENDED AND RESTATED         |                 |
| 1999 STOCK INCENTIVE PLAN FOR TEN YEARS                        | 27              |
| General                                                        | 27              |
| Interest of Certain Persons in Matters to be Acted Upon        | 27              |
| Vote Required and Board of Directors' Recommendation           | 27              |
| Summary of the Amended and Restated 1999 Stock Incentive Plan  | 27              |
| Plan Benefits                                                  | 34              |
| PROPOSAL 3 - APPROVAL OF THE MATERIAL TERMS OF THE             |                 |
| PERFORMANCE CRITERIA OF THE AMENDED AND RESTATED 1999 STOCK    |                 |
| INCENTIVE PLAN FOR PURPOSES OF SECTION 162(m) OF THE INTERNAL  |                 |
| REVENUE CODE                                                   | 35              |
| Interest of Certain Persons in Matters to be Acted Upon        | 35              |
| Vote Required and Board of Directors' Recommendation           | 35              |
| STOCKHOLDERS' PROPOSALS FOR 2010 PROXY STATEMENT               | 36              |
| OTHER MATTERS                                                  | 36              |
| SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE        | 36              |
| ANNUAL REPORT ON FORM 10-K                                     | 37              |
| APPENDIX A - AMENDED AND RESTATED SALEM COMMUNICATIONS         |                 |
| CORPORATION 1999 STOCK INCENTIVE PLAN (AS AMENDED AND RESTATED |                 |
| THROUGH JUNE 3, 2009)                                          |                 |

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## 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 (the **Company**), of proxies for use at the 2009 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 seven directors nominated by the Company's board of directors to serve until the annual meeting of stockholders to be held in the year 2010 or until their respective successors are duly elected and qualified.

For information regarding this proposal, see the section of this Proxy Statement entitled **PROPOSAL 1 ELECTION OF DIRECTORS**.

- Proposal 2 The amendment of the Company's Amended and Restated 1999 Stock Incentive Plan (the **Plan**) to extend the expiration date of the Plan for a period of ten (10) years from May 25, 2009, through May 25, 2019.

For information regarding this proposal, see the section of this Proxy Statement entitled **PROPOSAL 2 EXTENSION OF TERM OF AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN FOR TEN YEARS**

Proposal 3 The re-approval of the material terms of the performance criteria of the Plan.

For information regarding this proposal, see the section of this Proxy Statement entitled **PROPOSAL 3 APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE CRITERIA OF THE AMENDED AND RESTATED 1999 STOCK INCENTIVE PLAN FOR PURPOSES OF SECTION 162(m) OF THE INTERNAL REVENUE CODE**

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 term extension of the Plan, and **FOR** the re-approval of the material terms of the performance criteria of the Plan, as the holder of such shares is entitled to vote. Although management does not know of any matter other than the three 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: (a) 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 (b) 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.

Only stockholders of record on April 9, 2009 (the Record Date ) will be entitled to notice of and to vote at the Annual Meeting. There were outstanding on the Record Date 18,120,092 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 majority 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 five directors will be elected by a majority 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. To be approved, Proposals 2 and 3 require the affirmative vote of a majority of the shares of common stock present or represented by proxy and entitled to vote at the Annual Meeting.

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.

Only votes cast in person at the Annual Meeting or received by proxy before the beginning of the Annual Meeting will be counted. Giving us your proxy means you authorize us to vote your shares at the Annual Meeting in the manner you direct. If your shares are held in your name, you can vote by proxy in three convenient ways as follows:

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***On-Line Voting:***

Go to <http://www.eproxy.com/salm> and follow the instructions

§

***By Telephone:***

Call toll-free 1-866-580-9477 and follow the instructions

§

***By Mail:***

Complete, sign, date and return your proxy card in the enclosed envelope

Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day and will close at 11:59 p.m. on June 2, 2009.

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. 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. For Proposals 1, 2 and 3, abstentions will be counted in tabulations of the votes cast on a proposal and will have the same effect as a vote against the proposal, whereas broker non-votes will not be counted for purposes of determining whether the proposal has been approved.

### **Electronic Access to Proxy Materials**

Pursuant to applicable United States Securities and Exchange Commission (SEC) Rules, the Company is making this proxy statement and its Annual Report on Form 10-K available to its stockholders electronically via the Internet at <http://bnymellon.mobular.net/bnymellon/salm>. On or about April 24, 2009, we mailed our stockholders a Notice containing instructions on how to access this proxy statement along with our Annual Report on Form 10-K and vote online. If you received this Notice by mail, you will not automatically receive a printed copy of the proxy

2

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statement and annual report. The Notice also instructs you on how you may submit your proxy vote securely over the Internet or by telephone. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials as set forth in the Notice.

### **Solicitation**

The cost of preparing, assembling and sending the Notice of Annual Meeting of Stockholders, this Proxy Statement and the enclosed proxy card will be paid by the Company. Following the delivery 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 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 delivery and printing costs as well. A 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 delivered 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 for the Annual Meeting or for future stockholder meetings, such stockholder should telephone toll-free 1-800-542-1061, or write to Salem Communications Corporation c/o BNY Mellon Shareowner Services, P.O. Box 358015, Pittsburgh, PA 15252-8015. A separate set of proxy materials relating to the Annual Meeting will be sent promptly following receipt of your request. 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 AND EXECUTIVE OFFICERS

### Board of Directors

The board of directors presently consists of seven members. The following table sets forth certain information as of April 9, 2009, 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.

| Name of Director | Age | First Became        | Position(s) Held |
|------------------|-----|---------------------|------------------|
|                  |     | Company<br>Director | with the Company |

|                        |    |      |                       |
|------------------------|----|------|-----------------------|
| Stuart W. Epperson     | 72 | 1986 | Chairman of the Board |
| Edward G. Atsinger III | 69 | 1986 | CEO and Director      |
| David Davenport        | 58 | 2001 | Director              |
| Roland S. Hinz         | 70 | 1997 | Director              |
| Richard A. Riddle      | 64 | 1997 | Director              |
| Paul Pressler          | 78 | 2002 | Director              |
| Dennis M. Weinberg     | 56 | 2005 | Director              |

3

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 the Company since its inception. He is also a director of Salem Communications Holding Corporation, a wholly-owned subsidiary of the Company. Mr. Epperson has been engaged in the ownership and operation of radio stations since 1961. Mr. Epperson 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 2007. Mr. Epperson is married to Nancy A. Epperson who is Mr. Atsinger's sister.

**Edward G. Atsinger III**

Mr. Atsinger has been Chief Executive Officer, a director of the Company and a director of each of the Company's subsidiaries since their inception. He was President of Salem from its inception through June 2007. 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 2007. Mr. Atsinger has also been a member of the board of directors of Oaks Christian School since 1999. Mr. Atsinger is the brother-in-law of Mr. Epperson.

**David Davenport**

Mr. Davenport has been a director of the Company since November 2001. Mr. Davenport is Counselor to the Director of the Hoover Institution (since 2008) and a Research Fellow (since 2001). He was a Distinguished Professor of Public Policy at Pepperdine University from 2003 to 2008. 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 boards of Forest Lawn Memorial Parks Association and Common Sense California. Mr. Davenport also serves on the board of directors of Ameron International Corporation.

**Roland S. Hinz**

Mr. Hinz has been a director of the Company 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 the Company 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 for Community Education, Inc. a not-for-profit corporation operating Spanish Christian radio stations 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 the Company 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 1995, Judge Pressler has been a partner in the law firm of Woodfill & Pressler and its predecessors. 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. From 1957 to 1959, he was a member of the Texas Legislature, House of Representatives.

**Richard A. Riddle**

Mr. Riddle has been a director of the Company since September 1997. Mr. Riddle is an independent businessman specializing in providing financial assistance and consulting to individuals and manufacturing companies. He 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 the Company since November 1, 2005. Mr. Weinberg was one of the founding directors for WellPoint, a health benefits company. From February of 2002 to May 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. Mr. 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 is an advisor for the Pacific Justice Institute. Mr. Weinberg served on the board of directors of Truth for Life from November 2003 to September 2007. Truth for Life is a non-profit organization that is a customer of the Company.

### **Eric H. Halvorson**

Effective November 2008, Mr. Halvorson's status as a member of the Company's board of directors ceased. Mr. Halvorson is not standing for re-election at the Annual Meeting. Mr. Halvorson was a director of the Company from 1988 to November 2008. Mr. Halvorson was President and Chief Operating Officer of the Company from July 1, 2007 to September 30, 2008. Mr. Halvorson was Executive in Residence at Pepperdine University from 2005 to 2007, where he held a joint teaching appointment to the undergraduate Business Division and the Pepperdine Law School. Mr. Halvorson was President and Chief Executive Officer of The Thomas Kinkade Company from 2003 to 2005. Mr. Halvorson was a Visiting Professor at Pepperdine University from 2000 to 2003. Mr. Halvorson was Chief Operating Officer of the Company 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 is a member of the board of directors of Intuitive Surgical, Inc.

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

In November 2008 the Company's board of directors evaluated the independence of each of the Company's directors pursuant to the listing standards of the NASDAQ Stock Market (NASDAQ Rules). During this review, and as more specifically described in the section of this Proxy Statement entitled "TRANSACTIONS WITH RELATED PERSONS", below, 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, Hinz, Pressler, Riddle and Weinberg) is independent of the Company 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

5

met separately in such executive sessions and in the future will regularly meet in executive sessions as required by the NASDAQ Rules.

### 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:

| Name                   | Independent | Audit<br>Committee | Compensation<br>Committee | Nominating<br>and<br>Corporate<br>Governance<br>Committee |
|------------------------|-------------|--------------------|---------------------------|-----------------------------------------------------------|
| Stuart W. Epperson     |             |                    |                           |                                                           |
| Edward G. Atsinger III |             |                    |                           |                                                           |
| David Davenport        | I           |                    | C                         | X                                                         |
| Roland S. Hinz         | I           | X                  | X                         | X                                                         |
| Judge Paul Pressler    | I           |                    |                           | C                                                         |
| Richard A. Riddle      | I           | X                  | X                         | X                                                         |
| Dennis M. Weinberg     | I           | C                  |                           | 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. Weinberg (Chairman), Hinz and Riddle, each of whom is independent under the NASDAQ Rules and applicable SEC rules and regulations. The board of directors has determined that Mr. Weinberg, the Audit Committee Chairperson, qualifies as an audit committee financial expert, as defined and required by applicable SEC rules and regulations.

The Audit Committee held four regularly-scheduled meetings and two special meetings in 2008 and operates under a written charter adopted by the board of directors. The Audit Committee and the Company's board of directors annually (or more often as needed) review the charter to ensure it conforms to current laws and practices. This charter is available on the Company'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 of directors 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 Proxy Statement provides additional details about the duties and activities of this committee.

### **Compensation Committee**

As provided under applicable laws and rules, the Company's board of directors delegates authority for compensation matters to the Compensation Committee of the board of directors. The Compensation Committee's membership is determined by the board of directors. The Compensation Committee currently consists of Messrs.

Davenport (Chairman), Hinz 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 Section 16 officers and employees and to approve 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 "Stock Plan").

The Compensation Committee held three regularly scheduled and two special meetings in 2008. 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.

The role of the Company's Compensation Committee is to oversee the Company's compensation and benefit plans and policies, administer the Stock Plan (including reviewing and approving equity grants to elected officers), and review and approve all compensation decisions relating to elected officers, including those for the Company's Named Executive Officers. In 2008, the actions of the Compensation Committee included: reviewing objective benchmarks and metrics by which a Named Executive Officer's performance can be measured; and, analyzing peer compensation and performance data for comparison with the Company's Named Executive Officers. The Compensation Committee has delegated limited authority to Edward G. Atsinger III, the Company's Chief Executive officer, to grant up to ten thousand (10,000) options during any calendar year period to purchase the Company's class A common stock. This delegated authority is subject to prompt notification to the Compensation Committee of the issuance of any such grants and ratification of any such grants at the next regularly scheduled Compensation Committee meeting following the date of such grants.

The Company's Named Executive Officers do not determine or approve any element or component of their own compensation. The Company's CEO provides a recommendation to the Compensation Committee for base salary and annual incentive compensation for the Named Executive Officers reporting to him.

The Compensation Committee operates pursuant to a charter that was approved by the board of directors. The charter sets forth the responsibilities of the Compensation Committee. The Compensation Committee and the Company's board of directors annually (or more often as needed) review the charter to ensure it conforms to current laws and practices. This charter is available on the Company's Internet website ([www.salem.cc](http://www.salem.cc)) and a copy of the charter may be obtained from the Secretary of the Company upon written request. ***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.***

## **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee currently consists of Messrs. Pressler (Chairman), Davenport, Hinz, Riddle and Weinberg, each of whom is independent under the NASDAQ Rules. The Nominating and Corporate Governance Committee met four regularly scheduled times in 2008.

The Nominating and Corporate Governance Committee is authorized to: (a) develop and recommend a set of corporate governance standards to the board of directors for adoption and implementation, (b) identify individuals qualified to become members of the board of directors, (c) recommend that director nominees be elected at the Company's next annual meeting of stockholders, (d) recommend nominees to serve on each standing committee of the board of directors, (e) lead in the annual review of board performance and evaluation of the board's effectiveness, (f) ensure that succession planning takes place for the position of chief executive officer and other key Company senior management positions, and (g) 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 Company board member. The Nominating and Corporate Governance 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.

7

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The Nominating and Corporate Governance Committee implements the Company'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 nominee(s) 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 the Company'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 Nominating and Corporate Governance 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 Nominating and Corporate Governance Committee also considers whether a potential nominee would satisfy:

1. The criteria for director independence established by the 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 Nominating and Corporate Governance Committee identifies and evaluates potential director nominees. The Nominating and Corporate Governance Committee considers recommendations of management, stockholders and others. The Nominating and Corporate Governance 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 employee directors. The Nominating and Corporate Governance Committee also considers the specific needs of the various board committees. The Nominating and Corporate Governance 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 board of directors has adopted a written charter for the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee and the Company's board of directors annually (or more often as needed) review the charter to ensure it conforms to current laws and practices. This charter is available on the Company'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 did not receive any recommendations from stockholders proposing candidate(s) for election at the 2009 Annual 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 2008 Annual Meeting of Stockholders**

The full board of directors held five regularly-scheduled meetings in 2008. During 2008, each of the Company's incumbent directors attended all of the five regularly-scheduled 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 Company's annual meeting of stockholders. In 2008, each of the Company's directors attended the 2008 annual meeting of stockholders.

## 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 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 of the Company, the Company's CEO, principal financial officer, principal accounting officer, controller and persons performing similar functions. This Financial Code of Conduct has been adopted by the board as a code of ethics that satisfies applicable NASDAQ Rules. The Financial Code of Conduct is available on the Company'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. ***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.***

## Executive Officers

Set forth below are the executive officers of the Company, together with the positions held by those persons as of April 9, 2009. 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. Epperson, Atsinger, Davis, Evans, Henderson and Masyr, which agreements are described under the section of this Proxy Statement entitled EXECUTIVE COMPENSATION below.

| <b>Name of Executive Officer</b> | <b>Age</b> | <b>Position(s) Held with the Company</b> |
|----------------------------------|------------|------------------------------------------|
| Stuart W. Epperson               | 72         | Chairman of the Board                    |
| Edward G. Atsinger III           | 69         | Chief Executive Officer and Director     |
| Joe D. Davis                     | 65         | President - Radio Division               |

|                          |    |                                                              |                                                      |
|--------------------------|----|--------------------------------------------------------------|------------------------------------------------------|
| David A.R. Evans         | 46 | President                                                    | New Business Development, Interactive and Publishing |
| Christopher J. Henderson | 45 | VP, Legal and Human Resources, General Counsel and Secretary |                                                      |
| Evan D. Masyr            | 37 | Senior Vice President and Chief Financial Officer            |                                                      |

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, Epperson and Halvorson, whose business experience is described in the section of this Proxy Statement entitled "THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS Board of Directors above").

### **Joe D. Davis**

Mr. Davis has been President - Radio Division of the Company since July 2007. Mr. Davis was the Company's Executive Vice President and Chief Operating Officer from March 2005 to July 2007. Prior to that time, he was Executive Vice President of Radio from 2003 until March 2005, Executive Vice President, Operations from 2001 to 2003, Senior Vice President of the Company from 2000 to 2001, Vice President, Operations of the Company from 1996 to 2000 and General Manager of WMCA-AM from 1989 to 1996. He served concurrently as General Manager of WWDJ-AM from 1994 to 1996. Previously he was President of Davis Eaton Corporation in Phoenix, Arizona and also served as Vice President and Executive Director of one of the Company's national ministry clients. He has been involved professionally in various aspects of broadcasting since 1967.

9

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

Mr. Evans has been President - New Business Development, Interactive and Publishing of the Company since July 2007. Mr. Evans was Executive Vice President - Business Development and Chief Financial Officer of the Company from September 2005 to June 2007. Mr. Evans was Executive Vice President and Chief Financial Officer from 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.

### **Christopher J. Henderson**



Mr. Henderson has been Vice President, Legal and Human Resources, General Counsel and Corporate Secretary of the Company since March 2008. Mr. Henderson was Vice President, Human Resources of the Company from August 2006 to February 2008. From 2001 to August 2006, Mr. Henderson served as Corporate Counsel of the Company.

Prior to joining the Company, Mr. Henderson worked for 13 years as Senior Associate Attorney for Cooksey, Toolen, Gage, Duffy & Woog, first as a trial attorney and then as a transactional attorney.

#### **Evan D. Masyr**

Mr. Masyr has been Senior Vice President and Chief Financial Officer of the Company since July 2007. Mr. Masyr was Vice President - Accounting and Finance of the Company from September 2005 to June 2007. From March 2004 to September 2005, Mr. Masyr was Vice President of Accounting and Corporate Controller of the Company. Prior to that time, Mr. Masyr was Vice President and Corporate Controller of the Company from January 2003 to March 2004. From February 2000 to December 2002, he served as the Company's 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.

## **EXECUTIVE COMPENSATION**

### **Summary Compensation Table**

The table below summarizes the total compensation paid to or earned by the Named Executive Officers for the Company's fiscal years ended December 31, 2008 and December 31, 2007:

| <b>Name and Principal Positions</b> | <b>Salary</b> | <b>Bonus</b> | <b>Option Awards</b> | <b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b> | <b>All Other Compensation</b> | <b>Total</b> |
|-------------------------------------|---------------|--------------|----------------------|--------------------------------------------------------------------------------|-------------------------------|--------------|
|                                     |               |              |                      |                                                                                |                               |              |
|                                     | (\$)          | (\$)         | (\$)                 | (\$)                                                                           | (\$)                          | (\$)         |
| Edward G. Atsinger III              | 800,000       | 170,000      | 536,480              |                                                                                | 105,528                       | 1,612,008    |

|                                                                             |         |         |           |           |                  |
|-----------------------------------------------------------------------------|---------|---------|-----------|-----------|------------------|
| Chief Executive Officer<br>(2008)                                           |         |         |           |           |                  |
| Edward G. Atsinger III                                                      | 800,000 | 220,000 | 459,591   |           | 99,634 1,579,255 |
| Chief Executive Officer<br>(2007)                                           |         |         |           |           |                  |
| Stuart W. Epperson                                                          | 537,500 | 65,000  | 226,242   |           | 79,510 908,252   |
| Chairman of the Board<br>(2008)                                             |         |         |           |           |                  |
| Stuart W. Epperson                                                          | 625,000 | 80,000  | 196,424   |           | 74,823 976,247   |
| Chairman of the Board<br>(2007)                                             |         |         |           |           |                  |
| David A. R. Evans                                                           | 456,250 | 45,000  | 1,052,082 | (136,510) | 23,737 1,440,559 |
| President New Business<br>Development, Interactive and<br>Publishing (2008) |         |         |           |           |                  |
| David A. R. Evans                                                           | 458,333 | 75,000  | 629,249   |           | 22,140 1,184,722 |
| President New Business<br>Development, Interactive and<br>Publishing (2007) |         |         |           |           |                  |

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- (1) Amounts set forth in the *Bonus* column represent bonuses paid by the Company in 2008 for performance in 2007 and paid by the Company in 2007 for performance in 2006, respectively. Bonuses are given at the discretion of the Company and are not earned by Company employees until they are paid.
- (2) Amounts set forth in the *Option Awards* column represent the aggregate amount recognized for financial statement reporting purposes with respect to the Named Executive Officers for the fiscal year ended December 31, 2008 and December 31, 2007, respectively, disregarding the estimate of forfeitures related to service-based vesting conditions, but otherwise computed in accordance with the Statement of Financial Accounting Standards ( SFAS ) No. 123, as amended by SFAS No. 123(R), Share-Based Payment, ( SFAS 123R ) based upon assumptions set forth in Note 7 to the Company's consolidated financial statements filed with the SEC on Form 10-K on March 13, 2009, and in comparable financial statement notes filed with the SEC in previous Annual Reports on Form 10-K. For additional information regarding option awards, see the table entitled Outstanding Equity Awards at Fiscal Year End below.
- (3) In September 2008, the following option awards were voluntarily surrendered for no value by the Named Executive Officers: Mr. Atsinger surrendered a total of 651,365 options to purchase the Company's Class A common stock; Mr. Epperson surrendered a total of 411,730

options to purchase the Company's Class A common stock; and Mr. Evans surrendered a total of 275,859 options to purchase the Company's Class A common stock. Amounts set forth in the *Option Awards* column reflect the aggregate amount recognized regarding these surrendered options for financial statement reporting purposes for the fiscal year ended December 31, 2008. Other than these voluntary option surrenders, there were no option award forfeitures by the Named Executive Officers during the Company's fiscal years ended December 31, 2008 and December 31, 2007.

(4)

Amounts set forth in the *Change in Pension Value and Nonqualified Deferred Compensation Earnings* column include the reduction in market value during the fiscal year ended December 31, 2008 on compensation deferred by Mr. Evans.

(5)

Amounts set forth in the *All Other Compensation* column consist of the following:

| Item                                                 | Mr.            | Mr.           | Mr.           |
|------------------------------------------------------|----------------|---------------|---------------|
|                                                      | Atsinger       | Epperson      | Evans         |
|                                                      | (\$)           | (\$)          | (\$)          |
| Perquisites and Other Personal Benefits (2008)       | 93,583         | 67,647        | 1,943         |
| Company Contributions to 401(k) Plan (2008)          |                |               | 5,175         |
| Medical, Dental, Life and Disability Premiums (2008) | 11,945         | 11,863        | 16,619        |
| <b>TOTAL (2008)</b>                                  | <b>105,528</b> | <b>79,510</b> | <b>23,737</b> |
| Perquisites and Other Personal Benefits (2007)       | 87,250         | 62,546        |               |
| Company Contributions to 401(k) Plan (2007)          |                |               | 5,063         |
| Medical, Dental, Life and Disability Premiums (2007) | 12,384         | 12,277        | 17,077        |
| <b>TOTAL (2007)</b>                                  | <b>99,634</b>  | <b>74,823</b> | <b>22,140</b> |

(6)

Includes the following perquisites and personal benefits which have been valued by the Company based upon the incremental cost to the Company of providing these perquisites and personal benefits to the Named Executive Officers:

| Perquisite or Personal Benefit | Mr.      | Mr.      | Mr.   |
|--------------------------------|----------|----------|-------|
|                                | Atsinger | Epperson | Evans |
|                                | (\$)     | (\$)     | (\$)  |

|                                                               |               |               |              |
|---------------------------------------------------------------|---------------|---------------|--------------|
| Personal Use of Company Vehicle (2008)                        | 17,677        | 2,889         | N/A          |
| Split-Dollar Life Insurance Premiums (2008)                   | 70,998        | 64,758        | N/A          |
| Supplemental Medical, Travel and Expense Reimbursement (2008) | 4,908         | N/A           | N/A          |
| Supplemental Life Insurance Premiums (2008)                   | N/A           | N/A           | 1,943        |
| <b>TOTAL (2008)</b>                                           | <b>93,583</b> | <b>67,647</b> | <b>1,943</b> |
| Personal Use of Company Vehicle (2007)                        | 15,655        | 2,931         | N/A          |
| Split-Dollar Life Insurance Premiums (2007)                   | 65,855        | 59,615        | N/A          |
| Supplemental Medical, Travel and Expense Reimbursement (2007) | 5,740         | N/A           | N/A          |
| Supplemental Life Insurance Premiums (2007)                   | N/A           | N/A           | N/A          |
| <b>TOTAL (2007)</b>                                           | <b>87,250</b> | <b>62,546</b> |              |

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### Outstanding Equity Awards at Fiscal Year-End

The following table provides information as of December 31, 2008, in respect of outstanding equity awards made to the Company's NEOs that are exercisable into the Company's Class A common stock that may be issued under the Stock Plan, the Company's only existing equity compensation plan.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

| Name | Option Awards                                                       |                                                                       |                            |
|------|---------------------------------------------------------------------|-----------------------------------------------------------------------|----------------------------|
|      | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) |

|                        |       |           | <b>Option<br/>Expiration<br/>Date</b> |
|------------------------|-------|-----------|---------------------------------------|
| Stuart W. Epperson     | N/A   | N/A       | \$ N/AN/A                             |
| Edward G. Atsinger III | N/A   | N/A       | \$ N/AN/A                             |
| David A. R. Evans      | 6,250 |           | \$ <del>311480</del> 2013             |
|                        | 6,250 |           | \$ <del>311480</del> 2014             |
|                        |       | 6,250 (1) | \$ <del>311480</del> 2015             |
|                        |       | 6,250 (1) | \$ <del>311480</del> 2016             |

(1) Mr. Evans unexercisable options vest as follows: (a) 6,250 on March 14, 2010, and (b) 6,250 on March 14, 2011.

#### **Material Terms of Company s Nonqualified Deferred Compensation Plan**

The Company maintains a non-qualified deferred compensation plan as a benefit for certain designated employees who are within a select group of key management or highly compensated employees. The primary purpose of the Company s non-qualified deferred compensation plan is to allow plan participants to defer payment of up to 100% of base salary and bonus compensation until retirement or other employment termination. Plan participants may also elect an in-service distribution during a designated calendar year. Payment is made, at the participant s election, in a single sum or equal annual installment payments over a five-year period commencing at: (a) retirement after age 60, (b) or one year thereafter, or (c) the date previously elected by the plan participant; provided, however, that distribution in a single sum is automatically made on termination of employment for reasons other than retirement or disability. Previously established plan payment dates may, under certain circumstances, be deferred by participants but such payment dates may not be voluntarily accelerated after they have been designated by a participant. Plan participants may elect to have their contributions in investments that are offered to all plan participants by the plan administrator. Plan accounts are 100% vested at all times. The plan constitutes a fully funded, non-qualified deferred compensation plan.

## **Material Terms of NEO Employment Agreements Providing For Payment to NEOs upon Termination or Change in Control**

### *Mr. Atsinger's and Mr. Epperson's Employment Agreements*

Under the terms of their employment agreements, if Mr. Atsinger's or Mr. Epperson's employment is terminated by reason of death, his estate is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, (b) a prorated portion of his incentive bonus based on his prior year's incentive bonus, (c) his actual earned incentive bonus for any period not already paid, (d) amounts to which he is entitled under the Company's benefit plans, (e) immediate, 100% vesting of outstanding unvested stock options and other equity-based awards, and (f) continued coverage of his dependants by the Company's health benefit plans for a period of twelve months.

If Mr. Atsinger's or Mr. Epperson's employment is terminated upon disability (as defined in his employment agreement), he is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, (b) a severance payment equal to 100% of his then current annual base salary for a period of fifteen (15) months, (c) a prorated portion of his incentive bonus based on his prior year's incentive bonus, (d) his actual earned incentive bonus for any period not already paid, (e) amounts to which he is entitled under the Company's benefit plans, and (f) immediate, 100% vesting of outstanding unvested stock options and other equity-based awards.

If Mr. Atsinger's or Mr. Epperson's employment is terminated by the Company without cause (as defined in his employment agreement), he is entitled to receive: (a) a payment equal to his base salary earned but unpaid through the date of termination, (b) a prorated portion of his incentive bonus based on the prior year's incentive bonus, and any incentive bonus amount earned but not yet paid, and, (c) a payment equal to his then current annual base salary for a period of six months.

With the exception of any continued benefits coverage in the event of the death of Mr. Epperson or Mr. Atsinger, all payments to be made by the Company upon termination of employment to Messrs. Epperson or Atsinger will be lump sum payments.

The employment agreements also contain provisions that: (a) grant the Company a right of first refusal on all corporate opportunities presented to Messrs. Atsinger and Epperson; (b) restrict Mr. Atsinger's and Mr. Epperson's ability to engage in any business that is competitive with the Company's business for a period of two years following retirement or termination for cause or without good reason; and (c) restrict Mr. Atsinger's and Mr. Epperson's ability to interfere with the business of the Company or solicit Company employees for a period of two years following such retirement or termination. Compliance by Messrs. Atsinger and Epperson with these obligations is a material condition to the Company's obligation to provide the above termination benefits.

*Employment Agreement With Mr. Evans*

Under the terms of his employment agreement, if Mr. Evans' employment is terminated by reason of death, disability or otherwise for cause (as defined in his employment agreement), he or his estate is entitled to receive: (a) a payment equal to his base salary through the date of termination to the extent not already paid, and (b) his actual earned incentive bonus for any period not already paid.

In addition, if Mr. Evans' employment is terminated without cause (as defined in his employment agreement), certain stock option awards made to Mr. Evans on December 21, 2001, shall have an accelerated vesting schedule (with such options ratably vesting at a rate of 12.5% per year commencing on December 21, 2002 rather than ratably vesting at a rate of 25% per year commencing on December 21, 2005) and the unexercised portion of such options, based upon the accelerated vesting schedule, shall expire and become unexercisable one year from the termination date.

If Mr. Evans' employment is terminated by the Company without cause (as defined in his employment agreement), he is also entitled to receive: (a) a payment equal to his base salary earned but unpaid through the date of termination, (b) his actual earned incentive bonus for any period not already paid, (c) a severance payment in an amount equal to the base salary Mr. Evans would have otherwise received for a period of nine (9) months from the

13

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date of termination had he remained employed with the Company, and (d) professional outplacement assistance for twelve consecutive months from the termination date.

With the exception of professional outplacement services that would be provided by the Company to Mr. Davis over a one-year period in the event of a termination without cause, all payments to be made by the Company upon termination of employment to Mr. Evans would be lump sum payments.

The employment agreement with Mr. Evans also contains a provision that restricts his ability to interfere with the business of the Company or solicit Company employees for a period of six months following termination of employment for any reason. Compliance by Mr. Evans with these obligations is a material condition to the Company's obligation to provide the above termination benefits.

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

The following table provides information as of December 31, 2008 with respect to shares of our Class A common stock that may be issued under the Company's Stock Plan, our only existing equity compensation plan. The Stock 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 Stock Plan to reserve an additional 600,000 shares of the Company's Class A common stock for issuance under the Stock 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 Stock Plan to reserve an additional 1,500,000 shares of the Company's Class A common stock for issuance under the Stock Plan. The amendment was approved by a vote of the stockholders at the Company's Annual Meeting of Stockholders held on May 18, 2005. If stockholders approve Proposal 2 as described in this Proxy Statement, the term of the Stock Plan will be extended through May 25, 2019.

| Plan Category                                              | Equity Compensation Plan Information                                                               |                                                                                    |                                                                                                                               |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
|                                                            | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
| Equity compensation plans approved by security holders     | 562,175                                                                                            | \$14.56                                                                            | 2,327,475                                                                                                                     |
| Equity compensation plans not approved by security holders |                                                                                                    |                                                                                    |                                                                                                                               |
| Total                                                      | 562,175                                                                                            | \$14.56                                                                            | 2,327,475                                                                                                                     |

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**DIRECTOR COMPENSATION**



Non-employee directors of the Company receive an annual retainer and fees. The following table sets forth the compensation paid to or earned by the Company's non-employee directors in 2008:

| <b>Name</b>         | <b>Fees<br/>Earned<br/>or Paid<br/>in Cash<br/>(\$)</b> | <b>Stock<br/>Awards<br/><br/>(1),(2)<br/>(\$)</b> | <b>Option<br/>Awards<br/><br/>(3),(4)<br/>(\$)</b> | <b>TOTAL<br/><br/>(5)<br/>(\$)</b> |
|---------------------|---------------------------------------------------------|---------------------------------------------------|----------------------------------------------------|------------------------------------|
| David Davenport     | 68,000                                                  |                                                   |                                                    | 68,000                             |
| Eric H. Halvorson   | 8,750                                                   |                                                   |                                                    | 8,750                              |
| Roland S. Hinz      | 61,000                                                  |                                                   |                                                    | 61,000                             |
| Judge Paul Pressler | 50,500                                                  |                                                   |                                                    | 50,500                             |
| Richard A. Riddle   | 57,000                                                  |                                                   |                                                    | 57,000                             |
| Dennis M. Weinberg  | 65,000                                                  |                                                   |                                                    | 65,000                             |

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(1) No stock award grants were made to non-employee directors in 2008.

(2) There were no stock award forfeitures by the non-employee directors during the Company's fiscal year ended December 31, 2008.

(3) No stock option awards were made to non-employee directors in 2008.

(4) There were no option award forfeitures by the non-employee directors during the Company's fiscal year ended December 31, 2008.

(5) As of December 31, 2008, the Company's non-employee directors held the following interests in the Company's class A common stock:

|                     | <b>Stock<br/>Options</b> | <b>Restricted<br/>Shares(1)</b> | <b>Shares<br/>Owned<br/>Outright</b> | <b>Shares<br/>Owned<br/>Indirectly</b> | <b>TOTAL</b> |
|---------------------|--------------------------|---------------------------------|--------------------------------------|----------------------------------------|--------------|
| <b>Name</b>         | <b>(#)</b>               | <b>(#)</b>                      | <b>(#)</b>                           | <b>(#)</b>                             | <b>(#)</b>   |
| David Davenport     | 8,000                    | 3,000                           |                                      |                                        | 11,000       |
| Roland S. Hinz      | 8,800                    | 3,000                           | 12,339                               | 53,833                                 | 77,972       |
| Judge Paul Pressler | 8,000                    | 3,000                           | 8,000                                |                                        | 19,000       |
| Richard A. Riddle   | 8,800                    | 3,000                           | 48,891                               | 44,778                                 | 105,469      |
| Dennis M. Weinberg  | 2,000                    | 2,000                           | 23,970                               |                                        | 27,970       |

- (1) The restricted shares listed in the above table have vested as of October 13, 2006, September 6, 2007 and September 5, 2008. All of the restricted grants: (a) are Class A common stock of the Company that entitle the grantee immediately upon vesting the right to vote the shares and to participate in any dividend paid on Class A common stock; and (b) may not be sold or transferred by the grantee after vesting until the sooner to occur of the fifth anniversary of the grant date or the date that the grantee ceases for any reason to be a member of the Company's board of directors.

15

The cash compensation paid as of December 31, 2008 to the Company's non-employee directors ( Designated Directors ) as approved by the Company's board of directors at the recommendation of the Committee is as follows:

| <b>COMPENSATION</b>                    | <b>AMOUNT</b> | <b>PAYABLE TO</b>                            | <b>PAYABLE</b>                                                        |
|----------------------------------------|---------------|----------------------------------------------|-----------------------------------------------------------------------|
| Annual Retainer                        | \$ 25,000     | Designated Directors                         | Quarterly                                                             |
| Attendance Fee<br>(Full Company Board) | \$ 2,500      | Designated Directors                         | Per Regularly<br>Scheduled<br><br>or Noticed Company<br>Board Meeting |
| Attendance Fee<br>(Board Committee)    | \$ 1,500      | Designated Director<br><br>Committee Members | Per Regularly<br>Scheduled or                                         |

|                                                                    |          |                                                              |                                                      |
|--------------------------------------------------------------------|----------|--------------------------------------------------------------|------------------------------------------------------|
|                                                                    |          |                                                              | Noticed Committee Meeting                            |
| Chairperson Fee<br>(Audit and Compensation Committees)             | \$ 2,000 | Chairperson of Audit and Compensation Committees             | Per Regularly Scheduled or Noticed Committee Meeting |
| Chairperson Fee<br>(Nominating and Corporate Governance Committee) | \$ 1,000 | Chairperson of Nominating and Corporate Governance Committee | Per Regularly Scheduled or Noticed Committee Meeting |
| Attendance Fee<br>(Special Committee)                              | N/A      | Special Committee Members                                    | Per Special Committee Meeting or Task                |

In addition to the above fees, directors are compensated on an *ad hoc* basis for special committee or subcommittee meetings held or tasks performed by a committee or subcommittee designated by either the full Board of Directors or by a standing committee of the full Board of Directors, with such compensation determined by the establishing body at the time the special committee or subcommittee is established. Designated Directors who are also chairmen of the Company's board committees shall receive the applicable chairperson fee in addition to a committee attendance fee for each regularly scheduled Company board committee meeting. Designated Directors shall also receive reimbursement for all reasonable out-of-pocket expenses in connection with travel to and attendance at regularly scheduled Company board and board committee meetings.

Company directors who are also employees of the Company (Stuart W. Epperson, Chairman of the Board, and Edward G. Atsinger III, CEO) are not additionally compensated for their services as directors. Compensation for Messrs. Epperson and Atsinger is summarized in the Summary Compensation Table appearing in this Proxy Statement under the heading EXECUTIVE COMPENSATION.

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## AUDIT COMMITTEE REPORT

*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 its subsidiaries (the Corporation ) specifically incorporate 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 (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 registered public accounting firm to prepare or issue an audit report on the financial statements of the Corporation, and (d) the performance of the Corporation s internal auditor and independent registered public accounting firm.

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 Stock Market listing standards definitions, provisions and applicable exceptions concerning the independence of audit committee members.

In 2008, the Committee held six meetings, four of which were regularly scheduled and two of which were special. 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 met with the full Committee at five of the six meetings and the independent registered public accounting firm met with the full Committee at five of the six meetings. Prior to each regularly scheduled meeting, the Chairman of the Committee also met privately with the Corporation s independent registered public accounting firm 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 SingerLewak LLP as the Corporation s independent registered public accounting firm for the year ended December 31, 2008, and reviewed with the Corporation s financial managers, the independent registered public accounting firm, 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.

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 registered public accounting firm, SingerLewak 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, 2008. The Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by: (a) the Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ( PCAOB ) in Rule 3200T, 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 registered public accounting firm required by PCAOB Rule 3526 ( Communications with Audit Committees Concerning Independence ), and the Committee has discussed with the independent registered public accounting firm that firm s independence from the Corporation and its management. The Committee has also considered

whether the independent registered public accounting firm's 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, 2008, to be filed with the SEC.

The Audit Committee is currently comprised of Dennis M. Weinberg, Chairman, Roland S. Hinz and Richard A. Riddle.

## AUDIT COMMITTEE

Dennis M. Weinberg, Chairman

Roland S. Hinz

Richard A. Riddle

March 10, 2009

## 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 April 9, 2009 (unless otherwise indicated) by: (a) 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; (b) each director; (c) each of the Named Executive Officers; and (c) all directors and executive officers as a group.

| Name and Address(1) | Class A |           | Class B |           | % Vote of All Classes of Common |
|---------------------|---------|-----------|---------|-----------|---------------------------------|
|                     | Number  | % Vote(2) | Number  | % Vote(2) |                                 |
|                     |         |           |         |           |                                 |

|                                                                                                             |                |         |               |          | <b>Stock(2)</b> |
|-------------------------------------------------------------------------------------------------------------|----------------|---------|---------------|----------|-----------------|
| Stuart W. Epperson                                                                                          | 3,815,742 (3)  | 21.06 % | 2,776,848 (4) | 50.00 %  | 42.88 %         |
| Nancy A. Epperson                                                                                           | 2,808,222 (3)  | 15.50 % | 2,776,848 (4) | 50.00 %  | 41.51 %         |
| Edward G. Atsinger III                                                                                      | 3,952,730 (5)  | 21.81 % | 2,776,848 (5) | 50.00 %  | 43.06 %         |
| Edward C. Atsinger                                                                                          | 1,093,078 (6)  | 6.03 %  |               |          | 1.48 %          |
| David A.R. Evans                                                                                            | 37,050 (7)     | *       |               |          | *               |
| David Davenport                                                                                             | 12,000 (8)     | *       |               |          | *               |
| Roland S. Hinz                                                                                              | 80,383 (9)     | *       |               |          | *               |
| Paul Pressler                                                                                               | 20,000 (10)    | *       |               |          | *               |
| Richard A. Riddle                                                                                           | 88,691 (11)    | *       |               |          | *               |
| Dennis M. Weinberg                                                                                          | 27,970 (12)    | *       |               |          | *               |
| All directors and executive officers as a group (11 persons)                                                | 8,051,066      | 44.24 % | 5,553,696     | 100.00 % | 86.24 %         |
| Columbia Wanger Asset Management, L.P.<br>227 West Monroe St.,<br>Suite 3000<br>Chicago, IL 60606           | 3,085,700 (13) | 17.03 % |               |          | 4.19 %          |
| Gamco Investors, Inc., et al<br>One Corporate Center<br>Rye, NY 10580<br>140 Broadway<br>New York, NY 10005 | 1,975,580 (14) | 10.90 % |               |          | 2.68 %          |
| Epperson Children s Trusts                                                                                  | 1,007,520 (15) | 5.56 %  |               |          | 1.37 %          |

\* Less than 1%.

- (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 April 9, 2009 are deemed outstanding for the purposes of calculating the number and percentage ownership by such stockholder, but not deemed outstanding for the purpose of calculating the percentage owned by each other stockholder listed. Unless otherwise noted, all shares listed as beneficially owned by a stockholder are actually outstanding.
- (2) Percentage voting power is based upon 18,120,092 shares of Class A common stock and 5,553,696 shares of Class B common stock all of which were outstanding as of April 9, 2009, 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.
- (3) Includes shares of Class A common stock held by a trust of which Mr. and Mrs. Epperson are trustees 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.

- (4) Includes shares of Class B common stock held by a trust of which Mr. and Mrs. Epperson are trustees.
- (5) These shares of Class A and Class B common stock are held by trusts of which Mr. Atsinger is trustee.

19

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- (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 a trust for the benefit of Edward C. Atsinger. Edward C. Atsinger and his wife are trustees of the trust. These 3,000 shares are not included in shares beneficially owned by Edward G. Atsinger III as reflected in this table.
- (7) 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' spouse as a joint tenant with Mr. Evans' 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 31,250 shares of Class A common stock subject to options that are exercisable within 60 days.
- (8) Includes 8,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (9) Includes 1,411 shares held by Mr. Hinz's wife. Mr. Hinz disclaims beneficial ownership of shares of Class A common stock held by his wife. Includes 8,800 shares of Class A common stock subject to options that are exercisable within 60 days.
- (10) Includes 8,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (11) Includes 27,000 shares of Class A common stock held by a trust for which Mr. Riddle is trustee. Includes 8,800 shares of Class A common stock subject to options that are exercisable within 60 days.
- (12) Includes 2,000 shares of Class A common stock subject to options that are exercisable within 60 days.
- (13) This information is based on the Schedule 13G/A filed by Columbia Wanger Asset Management, L.P. ( CWAM ) and Columbia Acorn Trust ( Acorn ) and, together with CWAM, Columbia ), with the SEC on February 9, 2009. Columbia reported that as of December 31, 2008, it had sole voting power with respect to 2,725,700 shares, shared voting power with respect to 360,000 shares and sole dispositive power with respect to 3,085,700 shares.
- (14) This information is based on a Schedule 13D/A filed on March 19, 2009, which indicates that such Schedule 13D/A has been filed by Mario J. Gabelli ( Mario Gabelli ) and various entities that he directly or indirectly controls or for which he acts as chief investment officer. The Schedule 13D/A indicates that Mario Gabelli is deemed to have beneficial ownership of the shares owned beneficially by each of the filing persons. Each of the Reporting Persons and Covered Persons (both as defined in the Schedule 13D/A) has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the shares reported for it, either for its own benefit or for the benefit of its investment clients or its partners, as the case may be, except as noted in the Schedule 13D/A.
- (15) The shares of Class A common stock are held by the Kathryn Epperson Fonville Trust u/d/t 3/31/99, Stuart W. Epperson, Jr. Trust u/d/t 3/31/99, Kristine J. Epperson McBride Trust u/d/t 3/31/99 and Karen Epperson DeNeui Trust u/d/t 3/31/99 (collectively the Trusts ). There is a voting arrangement in place whereby a majority of the shares held collectively by the Trusts must be voted in order for all the shares of the Trusts to be voted.

## TRANSACTIONS WITH RELATED PERSONS

### Purchase of Transmitter Sites

The Company's Nominating and Corporate Governance Committee has a longstanding policy and desire to reduce the number of transactions entered into between the Company and its related parties. In March 2008, as part of a review and evaluation of certain upcoming related party lease option exercises or renewals, the committee determined that it was in the best interest of the Company for it to make an integrated offer to: (a) purchase certain transmitter sites from trusts or partnerships created for the benefit of Messrs. Atsinger and Epperson and their families (the Principal Stockholders), and (b) enter into new transmitter site leases for eight (8) existing transmitter sites operated by the Company and leased from the Principal Stockholders.

As a result of this offer, in April 2008, the Company purchased three tower and antenna sites (the Transmitter Site Purchases) from the Principal Stockholders as follows:

| Market                | Station<br>Call Letters | Facilities<br>Purchased | Purchase Price | Closing Date     |
|-----------------------|-------------------------|-------------------------|----------------|------------------|
| Seattle<br>Tacoma, WA | KGNW-AM                 | Antenna/Tower           | \$ 3,100,000   | April 8,<br>2008 |
| Denver<br>Boulder, CO | KRKS-AM                 | Antenna/Tower           | \$ 1,400,000   | April 8,<br>2008 |
| Pittsburgh, PA        | WORD-FM                 | Antenna/Tower           | \$ 475,000     | April 8,<br>2008 |
|                       |                         |                         | \$ 4,975,000   |                  |

By purchasing these sites, the Company eliminated approximately \$148,000 in annual rental expenses and permanently secured these AM transmitter site locations. The Company also assumed two income-producing lease agreements as a material part of the Transmitter Site Purchases as follows: (a) a duplex agreement at the Seattle-Tacoma, WA site generating current annual rental income of approximately \$139,000, and (b) a mobile telephone lease at the Pittsburgh, PA site generating current annual rental income of approximately \$26,000.



The purchase price for all three of the Transmitter Site Purchases was paid by the Company in cash at closing. All expenses incurred in connection with securing title insurance, preparation and recording of deeds, and other fees associated with completion of the Transmitter Site Purchases were shared equally by the Company and the Principal Stockholders.

A prerequisite negotiated by the Company as an important condition of the closing of the Transmitter Site Purchases was the entry by the Company into new transmitter site leases for eight (8) existing transmitter sites (the New Transmitter Site Leases ) operated by the Company and leased from the Principal Stockholders. Seven (7) of these New Transmitter Site Leases replace existing transmitter site leases between the Company and the Principal Stockholders which were either scheduled to expire or had option exercise deadlines in 2009 or 2010. As a result, the Company is not required to renegotiate a new lease or exercise an option on any of its related party leases until 2016.

In order to broadcast an AM radio signal, the Company's transmitter facilities must be located in areas where the topography and conductivity of the soils is suitable for transmission. In addition, many AM transmitter sites require several towers arrayed at precise locations, each with a large ground radial system, to operate. Securing a site with the requisite characteristics and obtaining necessary permissions to construct a transmission facility can take significant time and money. By entering into these new leases with the Principal Stockholders, the Company was able to secure these difficult-to-relocate AM transmitter sites for at least ten (10) years with an option to extend each of these leases for five (5) years thereafter.

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**Leases with Principal Stockholders**

As of April 9, 2009, the Company leased the studios and tower and antenna sites described in the table below from the Principal Stockholders. 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.

| Market | Station Call Letters | 2008 Annual Rental (1) | 2007 Annual Rental (2) | Expiration Date(3) |
|--------|----------------------|------------------------|------------------------|--------------------|
|--------|----------------------|------------------------|------------------------|--------------------|

**Leases with both Messrs. Atsinger**

**and Epperson:**

|                             |                         |                    |                     |      |
|-----------------------------|-------------------------|--------------------|---------------------|------|
| Denver-Boulder, CO          | KNUS-AM(4)              | \$ 52,498          | \$ 93,806           | 2016 |
| Minneapolis-St. Paul,<br>MN | KKMS-AM/KYCR-AM(5)      | \$ 176,107         | \$ 169,502          | 2016 |
| Sacramento, CA              | KFIA-AM(4)              | \$ 111,772         | \$ 110,222          | 2016 |
| San Antonio, TX             | KSLR-AM(Day site)(4)    | \$ 44,155          | \$ 43,126           | 2017 |
| Los Angeles, CA             | KTIE-AM(6)              | \$ 28,524          | \$ 26,872           | 2021 |
| Houston-Galveston,<br>TX    | KNTH-AM(4)              | \$ 49,368          | \$ 60,910           | 2023 |
| Philadelphia, PA            | WFIL-AM/WNTP-AM(5)      | \$ 186,893         | \$ 173,914          | 2023 |
| Phoenix, AZ                 | KPXQ-AM(4)              | \$ 59,097          | \$ 50,905           | 2023 |
| Portland, OR                | KPDQ-AM(4)              | \$ 24,238          | \$ 17,582           | 2023 |
| Seattle Tacoma, WA          | KLFE-AM(4)              | \$ 49,697          | \$ 78,937           | 2023 |
| Seattle Tacoma, WA          | KNTS-AM(4)              | \$ 24,071          | \$                  | 2023 |
| San Antonio, TX             | KSLR-AM (Night site)(4) | \$ 16,020          | \$ 12,110           | 2023 |
| San Francisco, CA           | KFAX-AM(4)              | \$ 208,392         | \$ 183,108          | 2023 |
| Orlando, FL                 | WTLN-AM(4)              | \$ 80,004          | \$ 80,004           | 2045 |
| <b>SUBTOTAL</b>             |                         | <b>\$1,110,836</b> | <b>\$ 1,100,998</b> |      |
| <b>Lease with</b>           |                         |                    |                     |      |
| <b>Mr. Atsinger:</b>        |                         |                    |                     |      |
| San Diego, CA               | KPRZ-AM(4)              | \$ 144,563         | \$ 138,483          | 2028 |
| <b>TOTAL</b>                |                         | <b>\$1,255,399</b> | <b>\$ 1,239,481</b> |      |

(1) Annual rent calculated as of December 31, 2008.

(2) Annual rent calculated as of December 31, 2007.

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

(4) Antenna/Tower Site

(5) Antenna/Tower/Studio Site

(6) Office/Studio Site

Rental expense paid by the Company to Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of their families for 2008 amounted to approximately \$1.3 million. Rental expense paid by the Company to Mr. Atsinger or trusts created for the benefit of his family for 2008 amounted to approximately \$0.1 million. Rental expense paid by the Company to Messrs. Atsinger and Epperson or trusts or partnerships created for the benefit of their families for 2007 amounted to approximately \$1.2 million. Rental expense paid by the Company to Mr. Atsinger or trusts created for the benefit of his family for 2007 amounted to approximately \$0.1 million.

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### **Radio Stations Owned by the Eppersons**

During 2007, 2008 and as of March 31, 2009, Nancy A. Epperson, the wife of the Chairman of the Board, Stuart W. Epperson, served as an officer, director and stockholder of several radio broadcasting entities as follows:

- Secretary, Treasurer, and a Director of Truth Broadcasting Corporation, licensee of WDRU-AM, Wake Forest, North Carolina, WTRU-AM, Kernersville, North Carolina, WKEW-AM, Greensboro, North Carolina, WPOL-AM, Winston-Salem, North Carolina, WCRU-AM, Dallas, North Carolina, and WSMX-AM, Winston-Salem, North Carolina. In 2008, Truth Broadcasting Corporation transferred the license for radio station WLVA-AM Lynchburg, Virginia, to Chesapeake-Portsmouth Broadcasting Corporation, an affiliated corporation whose current licenses are described below.

- President, a Director and 100% stockholder of Chesapeake-Portsmouth Broadcasting Corporation, licensee of WTJZ-AM, Newport News, Virginia, WLES-AM, Bon Air, Virginia, WLVA-AM Lynchburg, Virginia (received from Truth Broadcasting Corporation in 2008), WPMH-AM, Claremont, Virginia, WBOB-AM, Jacksonville, Florida, and broker of airtime on WRJR-AM, Portsmouth, Virginia. During 2008, Chesapeake-Portsmouth Broadcasting Corporation transferred the licenses to the following radio stations that were operated by Chesapeake-Portsmouth Broadcasting Corporation in 2007 and for a portion of 2008: WZNZ-AM, Jacksonville, Florida (currently licensed to Queen of Peace Radio, Inc.), WVAB-AM, Virginia Beach, Virginia (currently licensed to Birach Broadcasting Corporation), and WBVA-AM, Bayside, Virginia (currently licensed to Birach Broadcasting Corporation). Chesapeake-Portsmouth Broadcasting Corporation is also a 50% member of Northeast Florida Radio, LLC, permittee of BNP20010817AAF (AM), Nassau Village-Ratliff, Florida.

- President and a Director of Delmarva Educational Association, licensee of noncommercial station WAZP-FM, Cape Charles, Virginia and noncommercial station WWIP-FM, Cheriton, Virginia.

- President and a Director of The River Educational Media, Inc., licensee of noncommercial station WCRJ-FM, Jacksonville, Florida and noncommercial station WAYL-FM, St. Augustine, Florida.

The markets where these radio stations are located are not currently served by stations owned and operated by the Company. 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**

During 2007, 2008, and as of March 31, 2009, Mr. Hinz, a director of the Company, through companies or entities controlled by him, has and continues to operate the following radio stations in Southern California: (a) KLTX-AM, Long Beach, California, and KEZY-AM, San Bernardino, California (which were acquired from the Company in August 2000 and December 2001, respectively); and (b) KSDO-AM, San Diego, California. These radio stations are formatted in Christian Teaching and Talk programming in the Spanish language.

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

Truth For Life is a non-profit organization that is a customer of the Company. During 2008, the Company was paid approximately \$2.4 million by Truth For Life. During 2007, the Company was paid approximately \$2.2 million by Truth For Life. Mr. Hinz is an active member of the board of directors of Truth for Life. Mr. Weinberg served on the board of directors of Truth For Life from November 2003 through June of 2007.

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

The Company purchased split-dollar life insurance policies for its Chairman and Chief Executive Officer in 1997. The premiums for these policies were \$230,000 for the years ended December 31, 2008 and December 31, 2007, respectively. The Company is the owner of the policies and is entitled to recover all of the premiums paid on these policies. The Company records an asset based on the lower of the aggregate premiums paid or insurance case surrender value. As of December 31, 2008, the Company recorded an asset of \$1.9 million. Benefits above and

23

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beyond the cumulative premiums paid will go to the beneficiary trusts established by each of the Chairman and Chief Executive Officer.

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

From time to time, the Company rents aircraft from a company which is owned by Edward G. Atsinger III. 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 market rates and uses them for general corporate needs. Total rental expense for these aircraft for 2008 amounted to approximately \$188,000. Total rental expense for these aircraft for 2007 amounted to approximately \$368,000.

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**THE COMPANY'S RELATIONSHIP WITH ITS  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Principal Accountant Fees and Services**

The following table summarizes the fees billed by the Company's current registered public accounting firm, SingerLewak, LLP ( SL ), and former registered public accounting firm, Ernst & Young ( E&Y ), for professional services rendered during fiscal year 2008 and fiscal year 2007:

|                                             | <b>Fees Paid During Year Ended</b> |                     |
|---------------------------------------------|------------------------------------|---------------------|
|                                             | <b>December 31,</b>                | <b>December 31,</b> |
|                                             | <b>2008</b>                        | <b>2007</b>         |
| Audit Fees(1)                               | \$ 433,447                         | \$ 377,536          |
| Audit-Related Fees                          | \$                                 | \$                  |
| Tax Fees                                    | \$                                 | \$                  |
| All Other Fees                              | \$                                 | \$                  |
| <b>Total Fees<br/>F o r<br/>Services(2)</b> | <b>\$ 433,447</b>                  | <b>\$ 377,536</b>   |

- (1) Audit fees for the fiscal year ended December 31, 2008, include \$408,447 billed by SL and \$25,000 billed by E&Y. Audit fees for the fiscal year ended December 31, 2007, include \$309,154 billed by SL, and \$68,382 billed by E&Y. All fees are 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 auditors can reasonably provide such as comfort letters, consents, and assistance with and review of documents filed with the SEC.

- (2) 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 SL 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 SL and determined that the provision of such services was compatible with maintaining the independence of SL.

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## **PROPOSAL 1**

### **ELECTION OF DIRECTORS**

At the Annual Meeting, stockholders of the Company will be asked to vote on the election of seven 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 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 2010 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

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, Hinz, Pressler, Riddle and Weinberg; and as a Class B common stock holder **FOR** Messrs. Epperson, Atsinger, 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 AND EXECUTIVE OFFICERS** 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.**

26

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**PROPOSAL 2**

**EXTENSION OF TERM OF AMENDED AND RESTATED**

**1999 STOCK INCENTIVE PLAN FOR TEN YEARS**

**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.

The initial term of the Plan is scheduled to expire on May 25, 2009. The Company relies heavily upon the Plan to recruit, retain and reward qualified employees, officers, consultants, advisors and directors, and the board has approved, subject to approval by the Company's stockholders, an extension of the expiration date of the Plan for a period of ten years from May 25, 2009 until May 25, 2019.

If the stockholders do not approve Proposal 2, and as a consequence, the Company is unable to continue to grant



options or other stock-based compensation awards at competitive levels, we believe that there will be a negative effect on the Company's ability to meet its needs for highly qualified personnel and to manage future growth. Without the extension of the Plan term, the Company will not be able to issue new option (or other stock-based) grants for any purpose, including promotions or merit awards, for current employees after May 25, 2009. It is important to note that with the proposed extension of the Plan under this Proposal 2, the Company is not seeking to increase the number of authorized shares available for grant under the Plan. As of April 9, 2009, 2,196,525 shares of Class A common stock remain available for issuance pursuant to future awards that could be granted under the Plan.

### **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. However, if this proposal is approved, the Plan term will be extended for a period of ten years, with the Plan expiring on May 25, 2019.

### **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 amendment and restatement of the Plan extending the term of the Plan for ten years until May 25, 2019. If we do not obtain stockholder approval, then the Plan will terminate effective as of May 25, 2009, and no additional awards will be granted under the Plan after that date. Unexpired options granted under the Plan will, however, remain in effect until they terminate or are surrendered pursuant to the terms of the Plan. The board of directors believes that the proposed extension of the Plan is in the best interests of Salem and our stockholders for the reasons stated above. **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 remain in effect if Proposals 2 and 3 are approved by stockholders. 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**

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 31, 2009, there were approximately 135 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, 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), 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 option is granted, and (B) in the case of a grant of an Incentive Stock Option 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 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 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

28

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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).

**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 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

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price of a share of Class A Common Stock specified in the related stock option from the fair market value of a share of Class A Common Stock on the date of exercise of such stock appreciation right (or as of such other date specified in the instrument evidencing the stock appreciation right), by (b) the number of shares as to which such stock appreciation right is exercised. Such stock option will, to the extent surrendered, then cease to be exercisable. A stock appreciation right granted in connection with a stock option will be exercisable at such time or times, and only to the extent that, the related stock option is exercisable, and will not be transferable except to the extent that such related stock option may be transferable.

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

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

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

## **Prohibition on Option Repricing**

The Plan expressly provides that the Administering Body may not reduce or lower the exercise price, purchase price or initial value of stock options after they have been granted without stockholder approval.

### **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

30

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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.

### **Plan Effectiveness and Duration**

The Plan became effective as of May 25, 1999 (the Effective Date ), and, subject to the stockholder s approval of Proposal 2, will continue in effect until the 20th anniversary of the Effective Date (the Plan Term ), at which time the Plan will automatically terminate. If Proposal 2 is not approved by stockholders, then the Plan will terminate effective as of May 25, 2009. 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.

## **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.

32

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*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 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.

## **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.

## **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 9, 2009: (i) our Chief Executive Officer and two most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the 2008 fiscal year; (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

| Name and Position                                                                                 | Number of Shares (1) |
|---------------------------------------------------------------------------------------------------|----------------------|
| Edward G. Atsinger III                                                                            | 100,000(2)           |
| Chief Executive Officer and Director                                                              |                      |
| Stuart W. Epperson                                                                                | 50,000(2)            |
| Chairman of the Board                                                                             |                      |
| David A.R. Evans                                                                                  | 61,250(3)            |
| President New Business Development, Interactive and Publishing<br>Executive Group (6 persons) (4) | 286,250              |
| Non-Executive Director Group (5 persons)                                                          | 57,100(5)            |
| Non-Executive Officer Employee Group (approximately 1,450 persons)                                | 560,125(6)           |

- 
- (1) The Compensation Committee made a grant of stock options to officers and other employees on February 24, 2009. In addition, on March 11, 2009, the Compensation Committee made a grant of 1,000 shares of restricted stock to each non-employee director. Additional grants during 2009, if any, are not determinable at this time.
  - (2) Each of these stock options were granted on February 24, 2009 with an exercise price for each share of \$0.56.
  - (3) These stock options were granted as follows: (a) 6,250 shares on September 15, 2000 with an exercise price for each share of \$11.50, (b) 25,000 shares on March 14, 2007 with an exercise price for each share of \$11.80, and (c) 30,000 shares on February 24, 2009 with an exercise price for each share of \$0.56.
  - (4) This group consists of 6 persons, including each of the named executive officers listed above.
  - (5) This figure includes the following: (a) options to purchase 1,600 shares of the Company's class A common stock granted on July 1, 1999 with an exercise price for each share of \$22.50, (b) options to purchase 2,500 shares of the Company's class A common stock granted on November 2, 2001 with an exercise price for each share of \$18.77 (c) options to purchase 10,000 shares of the Company's class A common stock on September 11, 2003 with an exercise price for each share of \$23.35, (d) options to

purchase 10,000 shares of the Company's class A common stock on September 8, 2004 with an exercise price for each share of \$25.50, (e) options to purchase 4,000 shares of the Company's class A common stock on September 7, 2005 with an exercise price for each share of \$19.11, (f) the grant of 4,000 shares of restricted stock awarded in the aggregate to non-employee directors on October 13, 2005 (g) options to purchase 5,000 shares of the Company's class A common stock on September 6, 2006 with an exercise price for each share of \$11.15, (h) the grant of 5,000 shares of restricted stock awarded in the aggregate to non-employee directors on September 6, 2006, (i) options to purchase 5,000 shares of the Company's class A common stock on September 5, 2007 with an exercise price for each share of \$10.15, (j) the grant of 5,000 shares of restricted stock awarded in the aggregate to the non-employee directors on September 5, 2007, and (k) the grant of 5,000 shares of restricted stock awarded in the aggregate to the non-employee directors on March 11, 2009.

(6) Determined as of April 9, 2009 and excluding executive group listed above.

34

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**PROPOSAL 3**

**APPROVAL OF THE MATERIAL TERMS OF THE**

**PERFORMANCE CRITERIA OF THE AMENDED AND**

**RESTATED 1999 STOCK INCENTIVE PLAN**

**FOR PURPOSES OF SECTION 162(m)**

**OF THE INTERNAL REVENUE CODE**

If an award under the Plan is intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code ( 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. In addition, if an award under the Plan other than an award of stock options or stock appreciation rights is intended to qualify as performance-based compensation for purposes of Section 162(m) of the IRC, then the grant, award, vesting, or exercisability of such an Award shall be conditioned on the attainment of one or more Qualifying Performance Criteria. For purposes of the Plan, Qualifying Performance Criteria means any one or more of the following performance criteria, or derivations of such performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or affiliated entity, either individually, alternatively or in any combination, and measured either annually (or over such shorter period) or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Compensation Committee: (a) cash flow, (b) earnings per share (including earnings 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, and (j) return on operating revenue.

In general, 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 three most highly compensated officers (other than the Chief Financial Officer of the Company), 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. One of the requirements of performance-based compensation for purposes of Section 162(m) is that the material terms of the performance goals under which compensation may be paid be disclosed to and approved by the Company's stockholders. For purposes of Section 162(m), the material terms include (i) the employees eligible to receive compensation, (ii) a description of the business criteria on which the performance goal is based, and (iii) the maximum amount of compensation that can be paid to an employee under the performance goal. With respect to awards under the Plan, each of these aspects is discussed either in this Proposal 3 or in the Summary of the Amended and Restated 1999 Stock Incentive Plan included above, and stockholder approval of this Proposal 3 will be deemed to constitute approval of each of these aspects of the Plan for purposes of the approval requirements of Section 162(m).

### **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. 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.**

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 2010 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 28, 2009. The proposal may be included in next year's proxy statement if it complies with certain rules and regulations promulgated by the SEC. 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.

### **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.

If a stockholder desires to have a proposal presented at the Company's annual meeting of stockholders in 2010 and the proposal is not intended to be included in the Company's related 2010 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 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 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 NASDAQ, officers and directors of the Company and persons who beneficially own more than 10% of the common stock of the Company are required to: (a) report their initial ownership and change in ownership with respect to all equity securities of the Company; and (b) 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, 2008, 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.

36

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**ANNUAL REPORT ON FORM 10-K**

The Company's Annual Report on Form 10-K to Stockholders for the year ended December 31, 2008, including audited financial statements, is being made available 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, 2008, 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 on 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 Christopher J. Henderson, Secretary, Salem Communications Corporation, 4880 Santa Rosa Road, Camarillo, California 93012.**

By order of the board of directors,

CHRISTOPHER J. HENDERSON

*Secretary*

Camarillo, California

April 24, 2009

**PLEASE VOTE YOUR SHARES ON-LINE, BY TELEPHONE OR BY SIGNING, DATING AND  
RETURNING THE ENCLOSED PROXY CARD TODAY.  
NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**

If you have any questions, or have any difficulty voting your shares, please telephone Christopher J. Henderson of Salem at (805) 987-0400.

37

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**APPENDIX A**



**AMENDED AND RESTATED**  
**SALEM COMMUNICATIONS CORPORATION**  
**1999 STOCK INCENTIVE PLAN**  
**(AS AMENDED AND RESTATED**  
**THROUGH JUNE 3, 2009)**

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**TABLE OF CONTENTS**

|                                                   |            |
|---------------------------------------------------|------------|
| <b>ARTICLE I PURPOSE OF PLAN</b>                  | <b>A-1</b> |
| <b>ARTICLE II EFFECTIVE DATE AND TERM OF PLAN</b> | <b>A-1</b> |
| 2.1 Term of Plan                                  | A-1        |
| 2.2 Effect on Awards                              | A-1        |
| 2.3 Stockholder Approval                          | A-1        |
| <b>ARTICLE III SHARES SUBJECT TO PLAN</b>         | <b>A-1</b> |
| 3.1 Number of Shares                              | A-1        |
| 3.2 Source of Shares                              | A-1        |
| 3.3 Availability of Unused Shares                 | A-1        |
| 3.4 Adjustment Provisions                         | A-2        |
| (a) <i>Adjustments</i>                            | A-2        |
| (b) <i>No Fractional Interests</i>                | A-2        |
| (c) <i>Adjustments Related to Company Stock</i>   | A-2        |
| (d) <i>Right to Make Adjustment</i>               | A-2        |
| (e) <i>Limitations</i>                            | A-2        |

---

|                                          |            |
|------------------------------------------|------------|
| 3.5 Reservation of Shares                | A-2        |
| <b>ARTICLE IV ADMINISTRATION OF PLAN</b> | <b>A-2</b> |
| 4.1 Administering Body                   | A-2        |
| (a) <i>Plan Administration</i>           | A-2        |
| (b) <i>Administration by Committee</i>   | A-2        |
| 4.2 Authority of Administering Body      | A-3        |
| (a) <i>Authority to Interpret Plan</i>   | A-3        |
| (b) <i>Authority to Grant Awards</i>     | A-3        |
| (c) <i>Procedures</i>                    | A-3        |
| 4.3 No Liability                         | A-4        |
| 4.4 Amendments                           | A-4        |
| (a) <i>Plan Amendment</i>                | A-4        |
| (b) <i>Award Amendments</i>              | A-4        |
| (c) <i>Limitation</i>                    | A-4        |
| 4.5 Other Compensation Plans             | A-4        |
| 4.6 Plan Binding on Successors           | A-4        |

---

|                                                                  |                                        |
|------------------------------------------------------------------|----------------------------------------|
| 4.7 References to Successor Statutes, Regulations and Rules      | A-4                                    |
| 4.8 Issuances for Compensation Purposes Only                     | A-4                                    |
| 4.9 Invalid Provisions                                           | A-4                                    |
| 4.10 Governing Law                                               | A-5                                    |
| 4.11 Interpretation                                              | A-5                                    |
| <b>ARTICLE V GENERAL AWARD PROVISIONS</b>                        | <b>A-5</b>                             |
| 5.1 Participation in the Plan                                    | A-5                                    |
| (a) <i>Eligibility to Receive Awards</i>                         | A-5                                    |
| (b) <i>Eligibility to Receive Incentive Stock Options,</i>       | A-5                                    |
| (c) <i>Awards to Certain Eligible Persons</i>                    | A-5                                    |
| 5.2 Award Documents                                              | A-5                                    |
| 5.3 Exercise of Stock Options                                    | A-5                                    |
| 5.4 Payment For Awards                                           | A-6                                    |
| (a) <i>Payment of Exercise Price</i>                             | A-6                                    |
| (b) <i>Company Assistance</i>                                    | A-6                                    |
| (c) <i>Cashless Exercise</i>                                     | A-6                                    |
| (d) <i>No Precedent</i>                                          | A-6                                    |
| 5.5 No Employment Rights                                         | A-6                                    |
| 5.6 Restrictions Under Applicable Laws and Regulations           | A-6                                    |
| (a) <i>Consents, Approvals</i>                                   | A-6                                    |
| (b) <i>No Registration Obligation; Recipient Representations</i> | A-7                                    |
| 5.7 Additional Conditions                                        | A-7                                    |
| 5.8 No Privileges of Stock Ownership                             | A-7                                    |
| 5.9 Nonassignability                                             | A-7                                    |
| 5.10 Information to Recipients                                   | A-8                                    |
| 5.11 Withholding Taxes                                           | A-8                                    |
| 5.12 Legends on Awards and Stock Certificates                    | A-8                                    |
| 5.13 Effect of Termination of Employment on Awards               | A-8                                    |
| (a) <i>Termination of Vesting</i>                                | A-8                                    |
| (b) <i>Alteration of Vesting and Exercise Periods</i>            |                                        |
| (c) <i>Leave of Absence</i>                                      |                                        |
| 5.14 Limits on Awards to Certain Eligible Persons                | A-9                                    |
| 5.15 Lock-Up Agreements                                          | A-9                                    |
| <b>ARTICLE VI AWARDS</b>                                         | <b>A-9</b>                             |
|                                                                  | 6.1 Stock Options                      |
|                                                                  | A-9                                    |
|                                                                  | (a) <i>Nature of Stock Options</i> A-9 |
|                                                                  | (b) <i>Option Exercise Price</i> A-9   |

*(c) Option Period and  
Vesting* A-9

*(d) Termination* A-10

*(e) Special Provisions  
Regarding Incentive  
Stock Options* A-10  
6.2 Performance Awards  
A-11

*(a) Grant of  
Performance Awards*  
A-11

*(b) Payment of  
Performance Awards*  
A-11 6.3 Restricted  
Stock A-11

*(a) Award of Restricted  
Stock* A-11

*(b) Requirements of  
Restricted Stock* A-11

(i) No Transfer  
A-11

(ii) Certificates  
A-11

(iii) Restrictive  
Legends A-11

(iv) Other  
Restrictions A-11

(c) *Lapse of Restrictions*  
A-11

(d) *Rights of Recipient*  
A-11

(e) *Termination of  
Employment* A-11  
6.4 Stock Appreciation  
Rights A-12

(a) *Granting of Stock  
Appreciation Rights*  
A-12

(b) *Stock Appreciation  
Rights Related to Options*  
A-12

(c) *Stock Appreciation  
Rights Unrelated to  
Options* A-12

(d) *Limits* A-12

(e) *Payments* A-12  
6.5 Stock Payments  
A-12 6.6 Dividend

|                          |               |
|--------------------------|---------------|
| Equivalents              | A-13          |
| 6.7 Stock Bonuses        | A-13          |
| 6.8 Stock Sales          |               |
| A-13                     | 6.9 Phantom   |
| Stock                    | A-13          |
| 6.10 Other Stock-Based   |               |
| Benefits                 | A-13          |
| 6.11 Termination of      |               |
| Employment               | A-13          |
| <b>ARTICLE VII</b>       |               |
| <b>REORGANIZATIONS</b>   |               |
| A-13                     | 7.1 Corporate |
| Transactions Not         |               |
| Involving a Change in    |               |
| Control                  | A-13          |
| 7.2 Corporate            |               |
| Transactions Involving a |               |
| Change in Control        | A-13          |
| <b>ARTICLE VIII</b>      |               |
| <b>DEFINITIONS</b>       |               |
|                          | A-14          |

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**AMENDED AND RESTATED**  
**SALEM COMMUNICATIONS CORPORATION**  
**1999 STOCK INCENTIVE PLAN**  
**(AS AMENDED AND RESTATED THROUGH JUNE 3, 2009)**

**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 submitted for approval by the Company's stockholders at the Company's Annual Meeting of Stockholders on June 3, 2009. The effectiveness of any Awards granted contingent upon stockholder approval of the Plan or any amendment to the Plan is 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 the 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.

A-1

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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 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 shall 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 (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 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

A-2

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Section 12 of the Exchange Act, 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; provided, however, that the purchase price, exercise price, and initial value of any existing Award shall not be re-priced or modified by the Administering Body unless all such modifications are approved by the duly authorized vote of a majority of all outstanding shares of the Company as of the date said modification to any existing Award(s) is authorized by the Administering Body. 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

A-3

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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.

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 and subject to the limitations on re-pricing set forth in Section 4.2(b) of this Plan, 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.

### 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

A-5

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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.** The Company shall not assist any person to whom an Award is granted hereunder (including without limitation any officer or director of the Company) in the payment of the purchase price or other amounts payable in connection with the receipt or exercise of that Award by lending such amounts to such person.

(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, 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.

(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

A-6

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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 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 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 (nor 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

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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 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

A-8

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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.

**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

A-9

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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 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(f)(iv) is exceeded, the earliest granted Stock Options will be treated as Incentive Stock Options, up to such limit.

A-10

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## 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 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.

A-11

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## 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 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.

A-12

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## 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 or Stock Appreciation Right intended to constitute Performance-Based Compensation shall not be contingent upon the exercise of such Stock Option or Stock Appreciation Right.

## 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

A-13

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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 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 (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

A-14

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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 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 20th anniversary of the Effective Date.

A-15

**"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 Global 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 Global 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 Capital 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 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 Capital 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 Stock Options and Stock Appreciation Rights 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, which may be based on Qualifying Performance Criteria or other standards of financial performance and/or personal performance evaluations.

**"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 one or more Qualifying Performance Criteria.

**"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

A-16

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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.

**"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 June 3, 2009).

**"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).

**"Qualifying Performance Criteria"** means any one or more of the following performance criteria, or derivations of such performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Affiliated Entity, either individually, alternatively or in any combination, and measured either annually (or over such shorter period) or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee: (a) cash flow, (b) earnings per share (including earnings 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, and (j) return on operating revenue.

**"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.

A-17

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**"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.

A-18

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Please mark  
your votes as  
indicated in  
this example

X

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

1. To elect seven (7) members to the Board of Directors of Salem:

| Nominees:                  | FOR AGAINST ABSTAIN |   |   |                        | FOR AGAINST ABSTAIN |   |   |
|----------------------------|---------------------|---|---|------------------------|---------------------|---|---|
| 1.1 Stuart W. Epperson     | C                   | C | C | 1.5 Paul Pressler      | C                   | C | C |
| 1.2 Edward G. Atsinger III | C                   | C | C | 1.6 Richard A. Riddle  | C                   | C | C |
| 1.3 David Davenport        | C                   | C | C | 1.7 Dennis M. Weinberg | C                   | C | C |
| 1.4 Roland S. Hinz         | C                   | C | C |                        |                     |   |   |

2. To approve the amendment of Salem's Amended and Restated 1999 Stock Incentive Plan (the "Plan") to extend the expiration date of the Plan for a period of ten (10) years from May 25, 2009, through May 25, 2019:

FOR AGAINST ABSTAIN

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.

3. To re-approve material terms of the performance criteria of the Plan:

FOR AGAINST ABSTAIN

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

Mark Here for Address   
 Change or Comments  
**SEE REVERSE**

Signature

Signature

Date

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

**5 FOLD AND DETACH HERE 5**

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING, BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to annual meeting day.

**INTERNET**  
<http://www.eproxy.com/salm>

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**OR**

**TELEPHONE**  
 1-866-580-9477

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**Important notice regarding the Internet availability of proxy materials for the Annual Meeting of shareholders**

The Proxy Statement and the 2008 Annual Report to Stockholders are available at:

<http://bnymellon.mobular.net/bnymellon/salm>

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

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**SALEM COMMUNICATIONS CORPORATION  
PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 3, 2009  
Solicited on Behalf of the Board of Directors**

The undersigned hereby authorizes Edward G. Atsinger III and Christopher J. Henderson, 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, June 3, 2009, at 9:30 a.m. local time, and any postponement(s) or 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, 2009. 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, and FOR the re-approval of the award limitation provision in Salem's Amended and Restated 1999 Stock Incentive Plan in Item 3.

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

BNY MELLON SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

**Address Change/Comments  
(Mark the corresponding box on the reverse side)**

**5 FOLD AND DETACH HERE 5**

**You can now access your SALEM COMMUNICATIONS CORPORATION account online.**

Access your BNY Mellon Shareowner Services shareholder/stockholder account online via Investor ServiceDirect® (ISD).

Access your SALEM COMMUNICATIONS CORPORATION shareholder account online via Investor ServiceDirect® (ISD).

- View account status
- View certificate history
- View book-entry information
- View payment history for dividends
- Make address changes
- Obtain a duplicate 1099 tax form
- Establish/change your PIN

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For Technical Assistance Call 1-877-978-7778 between 9am-7pm  
Monday-Friday Eastern Time**

**\*\*\*\*TRY IT OUT\*\*\*\***

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**SALEM COMMUNICATIONS CORPORATION  
PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD JUNE 3, 2009  
Solicited on Behalf of the Board of Directors**

The undersigned hereby authorizes Edward G. Atsinger III and Christopher J. Henderson, 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, June 3, 2009, at 9:30 a.m. local time, and any postponement(s) or 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, 2009. 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, and FOR the re-approval of the award limitation provision in Salem s Amended and Restated 1999 Stock Incentive Plan in Item 3.

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

Address Change/Comments (Mark the corresponding box on the reverse side)

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

1. To elect five (5) members to the Board of Directors of Salem:

| Nominees                   | FOR                   | AGAINST               | ABSTAIN               |
|----------------------------|-----------------------|-----------------------|-----------------------|
| 1.1 Stuart W. Epperson     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1.2 Edward G. Atsinger III | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1.3 Roland S. Hinz         | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1.4 Richard A. Riddle      | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| 1.5 Dennis M. Weinberg     | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

|                                                                                                                                                                                                                    |                       |                       |                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| 2. To approve the amendment of Salem's Amended and Restated 1999 Stock Incentive Plan (the Plan) to extend the expiration date of the Plan for a period of ten (10) years from May 25, 2009, through May 25, 2019: | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|

|                                                                          |                       |                       |                       |
|--------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| 3. To re-approve material terms of the performance criteria of the Plan: | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
|--------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|

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

Mark Here for  
 Address   
 Change or  
 Comments  
 SEE REVERSE

**Sign, Date and Return the Proxy Card Promptly to  
 Salem Communications Corporation  
 Attn: Legal Department  
 4880 Santa Rosa Road  
 Camarillo, CA 93012**

Signature

Signature

Date

