SALEM MEDIA GROUP, INC. /DE/
Form DEF 14A
March 29, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

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

SALEM MEDIA GROUP, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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4880 Santa Rosa Road

Camarillo, CA 93012

(805) 987-0400

March 29, 2019

Dear Stockholder:

You are cordially invited to attend the 2019 Annual Meeting of Stockholders (the Annual Meeting) of Salem Media Group, Inc. (Salem or the Company). The Annual Meeting is scheduled to be held on Wednesday, May 8, 2019, at Salem s corporate offices, which are located at 4880 Santa Rosa Road, Camarillo, California, at 9:30 a.m. P.D.T. 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 nine (9) nominees 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. Proposal to amend and restate the Company s 1999 Stock Incentive Plan.

3. Proposal to ratify the appointment of Crowe LLP as the Company s independent registered public accounting firm.

4. An advisory (non-binding) vote on a resolution approving executive compensation as disclosed pursuant to Item 402 of Regulation S-K.

5. To transact any other business that properly comes 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 and **FOR** the proposal to amend and restate the Company s 1999 Stock Incentive plan and **FOR** the proposal to ratify the appointment of Crowe LLP as the Company s independent registered public accounting firm and **FOR** the approval of the advisory (non-binding) vote on a resolution approving executive compensation as disclosed pursuant to Item 402 of Regulation S-K. Please refer to the Proxy Statement for detailed information on the above 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.

As we have done in prior years, we are using the U.S. Securities and Exchange Commission rule that permits companies to furnish their proxy materials over the Internet. Unless you have opted out of receiving Notices, instead of mailing you a paper copy of the proxy materials, we will be mailing to you a Notice containing instructions on how

to access our proxy materials over the Internet. Therefore, a proxy card was not sent to you and you may vote only via telephone or online if you do not attend the Annual Meeting.

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 online, by telephone or, if you have chosen to receive paper copies of the proxy materials by mail, 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

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proxy card. The approximate date on which this Proxy Statement and the enclosed proxy card and Notice are first being sent or made available to stockholders is March 29, 2019. 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 May 8, 2019: Our Proxy Statement for the 2019 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2018 are available at *www.proxyvote.com*.

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

ONLINE, 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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 8, 2019

NOTICE IS HEREBY GIVEN that the 2019 Annual Meeting of Stockholders (the Annual Meeting) of Salem Media Group, Inc. (Salem or the Company) will be held on Wednesday, May 8, 2019 at 9:30 a.m. P.D.T. at Salem s corporate offices located at 4880 Santa Rosa Road, Camarillo, California, subject to adjournment or postponement by the Board of Directors, for the following purposes:

1. The election of the nine (9) nominees 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. Proposal to amend and restate the Company s 1999 Stock Incentive Plan.

3. Proposal to ratify the appointment of Crowe LLP as the Company s independent registered public accounting firm.

4. An advisory (non-binding) vote on a resolution approving executive compensation as disclosed pursuant to Item 402 of Regulation S-K.

5. To transact any other business that properly comes before the Annual Meeting or any adjournments or postponements thereof.

Only holders of record of Salem s Class A common stock, par value $0.01 per share, and Class B common stock, par value $0.01 per share, on March 13, 2019, the record date of the Annual Meeting, are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. A list of 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 represented by proxy in order to constitute a quorum for the transaction of business at the Annual Meeting. 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) if you have opted out of receiving a notice containing instructions on how to access our proxy materials over the Internet (the Notice) and have thus received a paper copy of the proxy materials, 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 received only the Notice, a proxy card was not sent to you, and you may vote only via the Internet if you do not attend the Annual Meeting, or you may request that a proxy card be mailed to you. 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 either a duly executed written notice dated subsequent to the proxy revoking it or a duly executed proxy bearing a later date, or (ii) attending the Annual Meeting and voting in person.

By order of the Board of Directors,

CHRISTOPHER J. HENDERSON

Secretary

Camarillo, California

March 29, 2019

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 8, 2019: Our Proxy Statement for the 2019 Annual Meeting of Stockholders and Annual Report on Form 10-K for the year ended December 31, 2018 are available at *www.proxyvote.com*

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.

SALEM MEDIA GROUP, INC.

4880 Santa Rosa Road

Camarillo, CA 93012

(805) 987-0400

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 8, 2019

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INTRODUCTION

This proxy statement (Proxy Statement) is furnished in connection with the solicitation by the Board of Directors (the Board or the Board of Directors) of Salem Media Group, Inc., a Delaware corporation (Salem or the Company), of proxies for use at the 2019 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, our stockholders are being asked to consider and to vote upon the following proposals:

Proposal 1 The election of the nine (9) nominees named in this Proxy Statement to serve until the annual meeting of stockholders to be held in 2020 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 Proposal to amend and restate the Company s 1999 Stock Incentive Plan.
For information regarding this proposal, see the section of this Proxy Statement entitled PROPOSAL 2 PROPOSAL TO AMEND AND RESTATE THE COMPANY S 1999 STOCK INCENTIVE PLAN.

Proposal 3 Proposal to ratify the appointment of Crowe LLP as the Company s independent registered public accounting firm.
For information regarding this proposal, see the section of this Proxy Statement entitled PROPOSAL 3 PROPOSAL TO RATIFY THE APPOINTMENT OF CROWE LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Proposal 4 An advisory (non-binding) vote on a resolution approving executive compensation as disclosed pursuant to Item 402 of Regulation S-K.
For information regarding this proposal, see the section of this Proxy Statement entitled PROPOSAL 4 AN ADVISORY (NON-BINDING) VOTE ON A RESOLUTION APPROVING EXECUTIVE COMPENSATION AS DISCLOSED PURSUANT TO ITEM 402 OF REGULATION S-K.

Shares represented by properly executed proxies received by us will be voted at the Annual Meeting in the manner specified therein or, if no instructions are marked on the enclosed proxy card, in accordance with the recommendation of the Board of Directors on all matters presented in this Proxy Statement. Although management does not know of any matter other than the 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 either a duly executed written notice dated subsequent the proxy revoking it or a duly executed proxy bearing a later date, or (b) attending the Annual Meeting and voting in person.

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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.

Record Date, Quorum and Voting

Only stockholders of record on March 13, 2019 (the Record Date) will be entitled to notice of and to vote at the Annual Meeting. There were outstanding on the Record Date 20,632,416 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 (1) 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 (10) votes on each matter to be voted on at the Annual Meeting, except that, as provided in our 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 (2) Independent Directors. The two (2) 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 seven (7) 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 Directors. For information regarding the election of Directors, see the section of this Proxy Statement entitled PROPOSAL 1 ELECTION OF DIRECTORS.

The presence in person or representation 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 for the transaction of business at the Annual Meeting. If there are not sufficient shares 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 the proxy holders 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 (3) convenient ways as follows:

On-Line Voting:	Go to *http://www.proxyvote.com* and follow the instructions
By Telephone:	Call toll-free 1-800-690-6903 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 May 7, 2019.

Under Delaware law and our 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 Proposal 1, votes may be cast in favor of or against any particular Director nominee. With regard to Proposal 2 and Proposal 3, votes may be cast in favor of or against the proposal. With regard to Proposal 4, votes may be cast in favor of, against or abstaining with respect to the advisory (non-binding) vote on a resolution approving executive compensation as disclosed pursuant to Item 402 of Regulation S-K. Proposal 1, Proposal 2, Proposal 3, Proposal 4 and any other 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 Proposal 1, Proposal 2, Proposal 3, and Proposal 4, 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. If you hold shares of our common stock through a broker, bank or other

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nominee, then you hold shares in street name. Thus, you must instruct the broker, bank or other nominee as to how to vote your shares. If you do not provide these instructions, the firm that holds your shares will have discretionary authority to vote your shares with respect to routine matters. Proposal 1, Proposal 2, Proposal 3 and Proposal 4 are not considered routine matters; thus, your broker will not have discretionary authority to vote your shares in connection with Proposal 1, Proposal 2, Proposal 3 or Proposal 4 if you do not provide it with instructions.

Electronic Access to Proxy Materials

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

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 us. Following the delivery of this Proxy Statement, Directors, Officers and other employees may solicit proxies by mail, telephone, facsimile or other electronic means, or by personal interview. These persons will receive no additional compensation for their 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 the shares and will be reimbursed by us 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 these documents or, where applicable, one Notice, 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 our stockholders whose shares are registered in the name of the bank, broker or other firm. As a result, unless the stockholders receiving the notice gave contrary instructions, only one Annual Report and/or Proxy Statement, as applicable, will be delivered to an address at which two (2) or more stockholders reside. If any stockholder residing at the address wishes to receive a separate Annual Report or Proxy Statement for the Annual Meeting or for future stockholder meetings, the stockholder should telephone toll-free 1-800-579-1639, or write to Salem Media Group, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. 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, the stockholder should contact his or her bank, broker or other firm in whose name the shares are registered or contact us at the address or telephone number listed on page 1 of this Proxy Statement. Similarly, a stockholder may use any of these methods if the stockholder is receiving multiple copies of a Proxy Statement or Annual Report and would prefer to receive a single copy in the future.

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THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Board of Directors

Our Board of Directors presently consists of nine (9) members (each, a Director). On December 12, 2018, Roland S. Hinz, notified us of his immediate desire to retire from the Board and the Nominating and Corporate Governance Committee and Compensation Committee. On March 19, 2019, Heather W. Grizzle was appointed to serve the remainder of Mr. Hinz s term and she will stand for election at the 2019 Annual Meeting. The following table sets forth certain information as of March 29, 2019, except where otherwise indicated, with respect to our Directors. Each of our Directors serves a one (1) year term and all Directors are subject to re-election at each annual meeting of stockholders.

Name of Director	Age	First Became Company Director	Position(s) Held with the Company
Stuart W. Epperson	82	1986	Chairman of the Board
Edward G. Atsinger III	79	1986	Chief Executive Officer and Director
Richard A. Riddle	74	1997	Director
Jonathan Venverloh	47	2011	Director
James Keet Lewis	65	2014	Director
Eric H. Halvorson	69	2015	Director
Edward C. Atsinger	44	2016	Director
Stuart W. Epperson Jr.	48	2016	Director
Heather W. Grizzle	37	2019	Director

Board Composition

As a national media presence with integrated operations including radio broadcasting, digital media, and publishing emphasizing Christian values, family-themed content and conservative news, our business involves an operational structure that operates on a broad scale and encompasses research, technical developments, and marketing functions in a context characterized by rapidly evolving technologies, exposure to business cycles, and significant competition. Our Nominating and Corporate Governance Committee is responsible for reviewing and assessing with the Board the appropriate skills, experience, and background sought of Board members in the context of our business and the then-current membership on the Board. This assessment of Board skills, experience, and background includes numerous diverse factors, such as an understanding of and experience in radio and new media, an understanding of our audience and the ministries that serve it, and finance, marketing and advertising experience. The priorities and emphasis of the Nominating and Corporate Governance Committee and of the Board with regard to these factors may change from time to time to take into account changes in our business and other trends, as well as the portfolio of skills and experience of current and prospective Board members. The Nominating and Corporate Governance Committee and the Board will review and assess the continued relevance of and emphasis on these factors as part of the Board s annual self-assessment process and in connection with candidate searches to determine if they are effective in helping to satisfy the Board s goal of creating and sustaining a Board that can appropriately support and oversee our activities.

We believe that it is important for our Board members to have diverse backgrounds, skills and experiences and seek this diversity in nominating Director candidates. One goal of this diversity of backgrounds, skills and experience is to assist the Board in its oversight concerning our business and operations. We consider the key skills, qualifications and experience listed below as important for our Directors to collectively have in light of our current business and structure. The Directors biographies provided later in this Proxy Statement note each

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Director s relevant skills, qualifications and experience. As part of an annual effectiveness review, the Board evaluates its composition to ensure that the Board as a whole sufficiently represents a diverse set of relevant backgrounds, skills and experience.

Senior Executive Leadership Experience. Directors who have served in senior executive leadership positions are important to us, as they bring experience and perspective in analyzing, shaping, and overseeing the execution of important operational and policy issues at a senior level. The insights and guidance of these Directors, particularly those Directors who have experience at businesses or organizations that have operated on a global scale, faced significant competition, and/or involved technology or other rapidly evolving business models enhance our Board s ability to assess and respond to situations faced by the Company.

Public Company Board Experience. Directors who have served on other public company boards can offer insights with regard to the dynamics and operation of a board of directors, corporate governance matters (including experience with respect to the relationship of a board of directors to the CEO and other management personnel), the importance of particular public company agenda and management matters and oversight of a changing mix of strategic, operational, and compliance-related matters.

Business Development Experience. Directors who have a background in business development can provide insight into developing and implementing strategies for growing our business through acquisitions.

Accounting and Financial Reporting Experience. Knowledge of accounting and financial reporting processes, as well as the financial markets, financing and funding operations, is important because it assists our Directors in understanding and overseeing our financial reporting, internal controls, capital structure, financing and investing activities.

Relevant Experience with our Audiences and Programmers. Directors who have relevant experience with the Christian and family-themed audience and the conservative news talk audience can provide insight and expertise in assisting the Board s implementation of Company strategies for growing our business by providing an engaging experience with our radio stations, Internet sites and other services. Directors with experience and knowledge of the business of our programmers and content providers can also assist the Board with analyzing, reviewing and approving mutually beneficial and significant relationships between these content providers and the Company.

Legal Expertise. Directors who have legal education and experience can assist the Board in fulfilling its responsibilities related to the oversight of our legal and regulatory compliance and engagement with regulatory authorities.

Radio Experience. Knowledge of the radio industry and the challenges and opportunities of radio broadcasting companies is vitally important because it enables our Directors to understand and oversee many aspects of our operations, goals and strategies.

New Media Experience. As the radio industry is faced with challenges and opportunities created by the emergence of new media , the Board benefits from including Directors who have relevant experience with these new and emerging means of distributing programming and enhancing our audience s ability to access information provided by us via different media outlets.

Set forth below is certain information concerning the principal occupation and business experience of each of the Directors during the past five (5) years and other relevant experience.

Stuart W. Epperson

Mr. Epperson has been our Chairman of the Board since our inception. He is also a Director of Salem Communications Holding Corporation, a wholly-owned subsidiary of ours. Mr. Epperson has been engaged in the ownership and operation of radio stations since 1961 and currently serves as a director and President of Roanoke-Vinton Radio Incorporated; as President of Sonsinger Management, Inc.; as a Partner of Sonsinger

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Properties, Sonsinger Broadcasting Company of Houston, L.P. and Salem Broadcasting Company; and as a member of East Bay Broadcasting, LLC. Mr. Epperson has been a member of the board of directors of the National Religious Broadcasters for a number of years and was re-elected to a three (3) year term on that board in February 2016. Mr. Epperson is married to Nancy A. Epperson, who is Mr. Atsinger s sister. Additionally, Mr. Epperson is the father of Stuart W. Epperson Jr. (Director) and uncle of Edward C. Atsinger (Director).

As one of our co-founders, Mr. Epperson provides the Board with extensive and valuable radio and senior executive leadership experience, business development experience and insight into our background and vision. His past political experience as well as his continuing operation of radio stations for related businesses provide the Board with valuable relevant experience with the needs and goals of our audience and our programmers and enable Mr. Epperson to contribute to the Board by assessing the many and varied strategic opportunities presented to us.

Edward G. Atsinger III

Mr. Atsinger has been our Chief Executive Officer, a Director and a director of each of our 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 and currently serves as a Partner of Salem Broadcasting Company, Sonsinger Properties, Sonsinger Broadcasting Company of Houston, L.P.; as a member of East Bay Broadcasting, LLC, Atsinger Aviation, LLC, Sun Air Jets, LLC, Allyson Aviation, LLC, Greenbelt Property Management; and as President of Sonsinger Management, Inc. Mr. Atsinger has been a member of the board of directors of the National Religious Broadcasters for a number of years and was re-elected to a three (3) year term on that board in February 2016. He was also a member of the National Association of Broadcasters Radio board of directors from 2008 through 2014. In October 2018, Mr. Atsinger was elected Chairman of the Radio Music License Committee. Mr. Atsinger has been a member of the board of directors of Oaks Christian School in Westlake Village, California since 1999. Mr. Atsinger is the brother-in-law of Mr. Epperson. Additionally, Mr. Atsinger is the father of Edward C. Atsinger (Director) and uncle of Stuart W. Epperson Jr. (Director).

As one of our co-founders, Mr. Atsinger provides the Board with extensive and valuable radio and senior executive leadership experience, business development experience and insight into our background and vision. His longstanding association with and service on many broadcasting-related boards of directors over the years also provides valuable radio and new media experience as well as an understanding of the broader needs and challenges facing our industry.

Richard A. Riddle

Mr. Riddle has been a Director 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. In October 2010, Mr. Riddle joined the board of directors of Truth for Life, a non-profit organization that is our customer. Additionally, in 2010, Mr. Riddle joined the board of directors of Know the Truth, a non-profit organization that is also one of our customers.

Having an extensive career in financial matters, Mr. Riddle brings to the Board significant financial experience enabling him to assess and provide oversight concerning business and financial matters addressed by us.

Jonathan Venverloh

Mr. Venverloh has been a Director since September 2011. Mr. Venverloh has worked in digital media and advertising for more than twenty (20) years, including more than seventeen (17) years at Google and stints at a major news website and global advertising agencies. Mr. Venverloh currently serves as Director of Program

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Management within Google Shopping, and from 2000-2010 he served as Google s Head of Distribution Partnerships and launched Google s Enterprise Division. From 1997 to 1999, Mr. Venverloh led Weather.com s sales efforts for the West Coast and previously worked at global ad agencies Saatchi & Saatchi and DDB Needham. Mr. Venverloh has also served as an advisor to digital media startups and served on the boards of directors of several non-profits. He earned a Bachelor of Arts in Advertising from Southern Methodist University and a Master s Degree in Management from the Stanford Graduate School of Business.

Mr. Venverloh brings to the Board valuable senior executive leadership experience and extensive digital media and advertising expertise. With senior management experience at a large public Internet company as well as service as an advisor to smaller digital media startups, Mr. Venverloh is well positioned to advise the Board on a wide cross-section of new media matters.

James Keet Lewis

Mr. Lewis has been a Director since May 2014. Mr. Lewis is co-owner of Lewis Group International, which has since 1990 been involved in several new product introductions in the health and wellness industry. Mr. Lewis was also the founder and president of Coll Pool Solutions, Inc., and is co-developer of a patent on a swimming pool maintenance product, The Skimmer Basket Buddy. Most recently, Mr. Lewis has focused a significant amount of his consulting time on international energy projects. Mr. Lewis has served on various political, ministry and charity boards, including the Christian Film and Television Commission, Liberty Institute, The Criswell College, Heritage Alliance, Heritage Alliance PAC, Texas Life Connections, Goodwill of Dallas, The Heidi Group, World Link Ministries, Hope for the Heart Ministries, Dallas Council for Life and The Caring Peoples Network. Mr. Lewis currently serves as a trustee of Houston Christian Broadcasting, Inc., which operates eighteen (18) non-commercial Christian radio stations, including its flagship station KHCB, in Houston, Texas. He currently serves on the board of Bott Radio Network in Kanas City, MO and is the co-managing member of GST Advisors LLC. Mr. Lewis has served on the board of Know the Truth, a non-profit organization that is one of our customers since 2016. Additionally, since 2018, he has served on the boards of UVLrx Therapeutics, Inc., Allied Special Operations Group, LLC and Bright Media Foundation. Mr. Lewis received his B.B.A. in 1977 from the University of Texas.

Mr. Lewis brings to the Board valuable leadership experience and relevant experience with our audience and programmers by virtue of his board service on several political, charitable and ministry organizations.

Eric H. Halvorson

Mr. Halvorson has been Dean of Trinity Law School since 2016. Additionally, Mr. Halvorson has been an attorney at the Law Office of Eric H. Halvorson since 2010 and focuses his practice on business law and estate planning. Mr. Halvorson is also of counsel to Stowell, Zeilenga, Ruth, Vaughn, and Treiger LLP, a boutique business law firm in Westlake Village. Mr. Halvorson was an Adjunct Professor at the Pepperdine University School of Law for the 2006-2007, 2009-2010, 2010-2011, and 2013-2014 academic years. He was an Executive in Residence at Pepperdine University Seaver College of Letters, Arts and Sciences from 2000-2003 and from 2005-2007. Mr. Halvorson was our President and Chief Operating Officer from 2007-2008, our Chief Operating Officer from 1996-2000 and our Executive Vice President from 1991-2000. From 1991-1999 and 1985-1988, Mr. Halvorson also served as our General Counsel. Mr. Halvorson was the managing partner of the law firm of Godfrey & Kahn, S.C.-Green Bay from 1988 until 1991. From 1985 to 1988, he was our Vice President and General Counsel. From 1976 until 1985, he was an associate and then a partner of Godfrey & Kahn, S.C.-Milwaukee. Mr. Halvorson was a Certified Public Accountant with Arthur Andersen & Co. from 1971 to 1973. Mr. Halvorson was previously a member of the board of directors of Intuitive Surgical, Inc., from 2003-2016 and Pharmacyclics, Inc., from 2011-2015. Mr. Halvorson is currently a member of the board of directors of Friends of Spanish Hills, LLC . Mr. Halvorson was previously our

Director from 1988-2008.

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Mr. Halvorson brings valuable legal and financial expertise and extensive historical knowledge of the Company to the Board. He has also served as a board member for several for-profit companies which enables him to bring relevant cross-board experience to us.

Edward C. Atsinger

Edward C. Ted Atsinger is co-founder, Chief Operating Officer, and in the first quarter of 2017 became an equity owner of Greytek, LLC, a counterintelligence and security services company focusing on the Defense and Industrial Security sectors. A veteran of multiple combat deployments, Mr. Atsinger dedicated himself to serving the interests of national security after the terrorist attacks of September 11, 2001, serving with distinction as a professional Counterintelligence Officer assigned to and supporting the United States Intelligence and Special Operations communities. Prior to his national security career, Mr. Atsinger worked as a Senior Producer in Salem s National News and Public Affairs Department. Mr. Atsinger holds a BA/MA (Oxon) in Philosophy and Theology from Oxford University, England. He has been a member of the board of directors of Rockbridge Academy, a classical Christian school in Millersville, Maryland since 2010. Mr. Atsinger is the son of Edward G. Atsinger III. Additionally, he is the nephew of Mr. Epperson and cousin of Stuart W. Epperson Jr.

Mr. Atsinger brings valuable senior executive leadership experience and business development experience to us.

Stuart W. Epperson Jr.

Stuart W. Epperson Jr. has been the Founder, President and CEO of Truth Broadcasting Corporation since its inception in 1998. Truth Broadcasting Corporation, which is one of our customers, operates 27 signals in seven markets including Raleigh, Greensboro, Charlotte, Richmond, Salt Lake City, Des Moines and Myrtle Beach/Coastal Carolina in the following formats: Christian Talk (primary), Urban Gospel, Southern Gospel and Spanish. From 1995-1998, Mr. Epperson Jr. was a Senior Account Executive at Clear Channel Communications and from 1993-1995 was an Account Executive at Multimedia Radio, Inc. Mr. Epperson Jr. earned his B.A. in Communications from The Master s College in 1992 and Master of Science, Broadcast Management from Bob Jones University in 1994. Mr. Epperson Jr. is the author of Last Words of Jesus published by Worthy Press Publ. in 2015 and First Words of Jesus published by the same publisher in 2016. Additionally, Mr. Epperson Jr. currently sits on the board of directors for the National Religious Broadcasters, Persecution Project Foundation, Chesapeake-Portsmouth Broadcasting Corporation and Delmarva Educational Association. Mr. Epperson Jr. is the son of Stuart W. Epperson, the nephew of Mr. Edward G. Atsinger III and cousin of Edward C. Atsinger.

Mr. Epperson Jr. brings valuable radio and senior executive leadership experience to us. In addition, Mr. Epperson Jr. s operation of radio stations in similar formats to ours enables him to bring relevant experience related to our audiences and programmers.

Heather W. Grizzle

Heather W. Grizzle is a founding partner of Causeway Strategies, a boutique consulting firm that helps individuals, organizations and corporations to communicate, connect and advance their objectives more effectively. Her background includes work in the White House and the U.S. House of Representatives, as well corporate communications in New York and charity sector communications in London. She graduated cum laude with high honors in Economics from Harvard University, where she was Co-President of the Institute of Politics. Ms. Grizzle is Vice Chairperson of the Board of Trustees of Stewardship, and a member of the Boards of Innovations for Poverty Action, Alpha USA, KidsMatter, and CharityVest.

Having worked in the White House and House of Representatives, Ms. Grizzle brings a unique insider s perspective relevant to our Conservative News Talk formats. Additionally, having served on several non-profit boards, Ms. Grizzle has experience related to many of our programmers and audiences.

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Director Independence and Executive Sessions

Our Board of Directors evaluated the independence of each of our Directors pursuant to the listing standards of the NASDAQ Stock Market (NASDAQ Rules). During this review, which included a review of the transactions and relationships described in the section of this Proxy Statement entitled CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS below, the Board of Directors considered various transactions and relationships among Directors (and their affiliates or family members), members of our senior management, affiliates and subsidiaries of ours and certain other parties that occurred during the past two (2) fiscal years. This review was conducted to determine whether, under the NASDAQ Rules, these relationships or transactions would affect the Board of Directors determination as to each director s independence.

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 (consisting of Messrs. Riddle, Venverloh, Lewis, Halvorson and Ms. Grizzle) is independent under 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. Our independent Directors have met separately in executive sessions and in the future will regularly meet in executive sessions as required by the NASDAQ Rules.

Committees of the Board of Directors

Our Board of Directors has three (3) 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 Committee	Compensation Committee	Nominating and Corporate Governance Committee
Stuart W. Epperson				
Edward G. Atsinger III				
Edward C. Atsinger				
Stuart W. Epperson Jr.				
Richard A. Riddle	**I**	**X**	**X**	**X**
Jonathan Venverloh	**I**		**X**	**C**
James Keet Lewis	**I**	**X**	**C**	**X**
Eric H. Halvorson	**I**	**C**		**X**
Heather W. Grizzle	**I**			

I = Director is independent

X = Current member of committee

C = Current member and chairman of the committee

Audit Committee

The Audit Committee of the Board of Directors (the Audit Committee) is a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee currently consists of Messrs. Halvorson (Chairman), Riddle and Lewis, each of whom is independent under the NASDAQ Rules and applicable SEC rules and regulations. The Board of Directors has determined that Mr. Halvorson, the Audit Committee Chairperson, qualifies as an audit committee financial expert as defined by applicable SEC rules and regulations.

The Audit Committee held three (3) regularly scheduled in-person meetings and three (3) telephonic meetings in 2018 and operates under a written charter adopted by the Board of Directors. The Audit Committee

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and the 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 our Internet website (*http://salemmedia.com*) and a copy of the charter may be obtained upon written request from our Secretary. ***Any information found on our website is not a part of, or incorporated by reference into, this or any other report filed with, or furnished to, the SEC by us*.**

The Audit Committee s responsibilities are generally to assist the Board of Directors in fulfilling its legal and fiduciary responsibilities relating to our accounting, audit and reporting policies and practices. The Audit Committee also, among other things, oversees our financial reporting process, retains and engages our independent registered public accounting firm, approves the fees for our independent registered public accounting firm, monitors and reviews the quality, activities and functions of our independent registered public accounting firm, and monitors the adequacy of our operating and internal controls and procedures as reported by management and our 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, our Board of Directors delegates authority for compensation matters to the Compensation Committee of the Board of Directors (the Compensation Committee). The Compensation Committee s membership is determined by the Board of Directors. The Compensation Committee currently consists of Messrs. Riddle (Chairman), and Lewis, each of whom is independent under the NASDAQ Rules, including recently adopted compensation committee independence requirements. The Compensation Committee is authorized to review and approve compensation, including non-cash benefits and severance arrangements for our 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 our 1999 Stock Incentive Plan.

The Compensation Committee held two (2) regularly scheduled meetings and one (1) special meeting in 2018. The Compensation Committee meets at least twice annually and at additional times as are necessary or advisable to fulfill its duties and responsibilities.

The role of our Compensation Committee is to oversee our compensation and benefit plans and policies, administer our 1999 Amended and Restated Stock Incentive Plan (including reviewing and approving equity grants to elected officers), and to review and approve all compensation decisions relating to elected officers, including those for our Named Executive Officers (who are listed in the Summary Compensation Table below). In 2018, 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 our Named Executive Officers. The Compensation Committee has delegated limited authority to Edward G. Atsinger III, our Chief Executive Officer, to grant up to $250,000 of equity incentive awards (restricted stock and stock options) to purchase our Class A common stock annually (measured each calendar year without carry-over of unused grant authority from year to year). 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.

Our Named Executive Officers do not determine or approve any element or component of their own compensation. Our 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 our 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 our Internet website (*http://salemmedia.com*) and a copy of the

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charter may be obtained from our Secretary upon written request. ***Any information found on our website is not a part of, or incorporated by reference into, this or any other report filed with, or furnished to, the SEC by us.***

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board of Directors (the Nominating and Corporate Governance Committee) currently consists of Messrs. Venverloh (Chairman), Riddle, Lewis and Halvorson, each of whom is independent under the NASDAQ Rules. The Nominating and Corporate Governance Committee held two (2) regularly scheduled meetings and one (1) special meeting in 2018.

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 our 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 senior management positions; and (g) analyze, review and, where appropriate, approve all related party transactions to which we 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 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 our core businesses and seeks Directors who possess some or all of the skills, qualifications and experience described under Board Composition in this Proxy Statement.

The Nominating and Corporate Governance Committee implements our policy regarding stockholder nominations by considering nominees for director positions that are made by our stockholders. Any stockholder desiring to make such a nomination must submit in writing the name(s) of the recommended nominee(s) to our Secretary at least 90 days prior to, but not earlier than 120 days prior to the first anniversary of the preceding 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 our director if nominated and duly elected.

The Board provides oversight of our management and plays a key role in shaping our strategic direction. Consistent with the our Nominating and Corporate Governance Committee Charter, the Nominating and Corporate Governance Committee considers various criteria in Board candidates, including, the skills, qualifications and experience described under Board Composition in this Proxy Statement, as well as their appreciation of our 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 Rules; 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, retirement or term expiration 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.

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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 our 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 our Internet website (*http://salemmedia.com*) and a copy of the charter may be obtained upon written request from our Secretary. ***Any information found on our website is not a part of, or incorporated by reference into, this or any other report of filed with, or furnished to, the SEC by us.***

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

Although the Board does not have a formal policy on diversity, the Nominating and Corporate Governance Committee and the Board review from time-to-time the membership of the Board in light of our operations and strategic objectives and consider whether the current Board members possess the requisite skills, experience and perspectives to oversee the achievement of those goals. As part of an annual effectiveness review, the Nominating and Corporate Governance Committee evaluates the diversity of the Board composition to ensure that it sufficiently represents a diverse set of background, skills and experience.

Board Leadership Structure

Historically, our Board of Directors has had a general policy that the positions of Chairman of the Board and CEO should be held by separate persons as an aid in the Board s oversight of management. This policy has been in effect since we began operations. The Chairman of the Board is a full-time senior executive of ours. The duties of the Chairman of the Board include:

- presiding over all meetings of the Board;
- preparing the agenda for Board meetings in consultation with the CEO and other members of the Board;
- managing the Board s process for annual Director self-assessment and evaluation of the Board and of the CEO; and
- presiding over all meetings of stockholders.

The Board of Directors believes that there are advantages to having a separate Chairman for matters such as communications and relations between the Board members, the CEO, and other senior management; in assisting the

Board in reaching consensus on particular strategies and policies; and in facilitating robust Board and CEO evaluation processes. In addition, having separate Chairman and CEO positions permits the CEO to focus on day-to-day business and allows the Chairman to lead the Board in its oversight responsibilities. The Board currently consists of the Chairman of the Board, the CEO, five (5) independent Directors and two (2) non-independent Directors. One of Mr. Epperson s roles is to oversee and manage the Board of Directors and its functions, including setting meeting agendas and running Board meetings. In this regard, Mr. Epperson and the Board in their advisory and oversight roles are particularly focused on assisting the CEO and senior management in seeking and adopting successful business strategies and risk management policies, and in making successful choices in management succession.

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Board s Role in Risk Oversight

Our Board of Directors as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant Board committees. These committees then provide reports to the full Board. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide visibility to the Board about the identification, assessment, and management of critical risks. These areas of focus include strategic, operational, financial and reporting, succession and compensation, legal and compliance, and other risks. The Board and its committees oversee risks associated with their respective areas of responsibility, as summarized above.

Director Attendance at Board and Committee Meetings and 2018 Annual Meeting of Stockholders

The full Board of Directors held four (4) regularly scheduled meetings in 2018. During 2018, each of our incumbent Directors attended (either in person or telephonically) all of the regularly scheduled meetings of the full Board of Directors. Each of our incumbent Directors attended more than seventy-five percent (75%) of the aggregate of the number of meetings of the Board and the total number of meetings held by all committees of the Board on which he served. We encourage, but do not require, that each Director attend our annual meeting of stockholders. In 2018, each of our then Directors attended the 2018 annual meeting of stockholders

Communications between Stockholders and the Board

We have historically handled communications between stockholders and the Board of Directors on an *ad hoc* basis. We have not adopted a formal policy or process for these communications as of the date of this Proxy Statement. We have, however, taken actions to ensure that the views of our stockholders are communicated to the Board or one or more of the individual Directors, as applicable. The Board considers its responsiveness to such communications as timely and exemplary.

Financial Code of Conduct

We have adopted a financial code of conduct (Financial Code of Conduct) that applies to each Director, the principal executive officer, 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 our Internet website (*http://salemmedia.com*) and a copy of the Financial Code of Conduct may be obtained free of charge upon written request from the Secretary. ***Any information found on our website is not a part of, or incorporated by reference into, this or any other report filed with, or furnished to, the SEC by us.***

Executive Officers

Set forth below are our executive officers, together with the positions held by those persons as of March 29, 2019. The executive officers are elected annually and serve at the pleasure of our Board of Directors; however, we have entered into employment agreements with each of the executive officers listed below.

Name of Executive Officer	Age	Position(s) Held with the Company
Stuart W. Epperson	82	Chairman of the Board
Edward G. Atsinger III	79	Chief Executive Officer and Director

David A.R. Evans	56	President New Media
David P. Santrella	57	President Broadcast Media
Evan D. Masyr	47	Executive Vice President and Chief Financial Officer
Christopher J. Henderson	55	EVP, Legal and Human Resources, General Counsel and Secretary

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Set forth below is certain information concerning the business experience during the past five (5) years and other relevant experience of each of the individuals named above (excluding Messrs. Atsinger and Epperson, whose business experience is described in the section of this Proxy Statement entitled THE BOARD OF DIRECTORS AND EXECUTIVE OFFICERS Board of Directors above).

David A. R. Evans

Mr. Evans has been President New Media since September 2013. Mr. Evans was President New Business Development, Interactive and Publishing from July 2007 to September 2013. Mr. Evans was Executive Vice President Business Development and Chief Financial Officer 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 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.

David P. Santrella

Mr. Santrella has been President Broadcast Media since January 1, 2015, overseeing all broadcast operations involving our local radio stations, radio network and internal rep firm. From January 2010 to December 2014 he served as President Radio Division. From October 2008 to December 31, 2009, he served as Operational Vice President over our Minneapolis, Denver and Colorado Springs clusters in addition to his existing responsibility over the Chicago cluster. From March 2006 to October 2008, Mr. Santrella was the Operational Vice President of Chicago and Milwaukee. In November of 2003, he was given additional oversight responsibility of Milwaukee. Mr. Santrella started with us in 2001 as the General Manager of our Chicago cluster.

Evan D. Masyr

Mr. Masyr has been Executive Vice President and Chief Financial Officer since January 2014. Prior to January 2014, Mr. Masyr was Senior Vice President and Chief Financial Officer since July 2007. Mr. Masyr was Vice President Accounting and Finance from September 2005 to June 2007. From March 2004 to September 2005, Mr. Masyr was Vice President of Accounting and Corporate Controller. Prior to that time, Mr. Masyr was Vice President and Corporate Controller from January 2003 to March 2004. From February 2000 to December 2002, he served as our 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. Mr. Masyr currently serves on the board of directors of Archway Insurance, Ltd., a group insurance captive of which Salem is a member.

Christopher J. Henderson

Mr. Henderson has been Executive Vice President, Legal and Human Resources, General Counsel and Corporate Secretary since July 2018. Prior to July 2018, Mr. Henderson was Senior Vice President, Legal and Human Resources, General Counsel and Corporate Secretary since 2012. Prior to 2012, Mr. Henderson was Vice President, Legal and Human Resources, General Counsel and Corporate Secretary since March 2008. Mr. Henderson was Vice

President, Human Resources from August 2006 to February 2008. From 2001 to August 2006, Mr. Henderson served as Corporate Counsel. Prior to joining us, Mr. Henderson worked for thirteen (13) years as an attorney for Cooksey, Toolen, Gage, Duffy & Woog, first as a trial attorney and then as a transactional attorney.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The table below summarizes the total compensation of the NEOs for fiscal years ended December 31, 2018 and December 31, 2017.

Name and Principal Position	Year	Salary ($)	Bonus(1) ($)	Restricted Stock Awards(2) ($)	Option Awards(3) ($)	All Other Compensation(4)(5) ($)	Total(6) ($)
Edward G. Atsinger III							
Chief Executive Officer	2018	989,808			180,000	123,814	1,293,622
	2017	982,404		193,436		125,541	1,301,381
David A. R. Evans							
President New Media	2018	530,000			72,000	13,050	615,050
	2017	522,731	10,000			13,334	546,065
David P. Santrella							
President Broadcast Media	2018	509,808			72,000	12,037	593,845
	2017	499,135				13,298	512,433

(1) Amounts set forth in the Bonus column represent bonuses earned for performance in the reflected fiscal year. For years in which restricted stock was awarded in settlement of annual performance bonuses, those restricted stock awards are reflected in the year for which the bonus was earned rather than paid.

(2) On August 9, 2017, a restricted stock award of 33,066 shares was granted to Edward G. Atsinger III that vested immediately. The fair value of the restricted stock award was measured based on the grant date market price of our common shares and expensed as of the vesting date. The restricted stock award contained transfer restrictions under which they could not be sold, pledged, transferred or assigned until ninety (90) days from the vesting date. The recipient of this restricted stock award is entitled to all of the rights of absolute ownership of the restricted stock from the date of grant, including the right to vote the shares and to receive dividends. Restricted stock awards are independent of option grants and are granted at no cost to the recipient other than applicable taxes owed by the recipient. The award was considered issued and outstanding from the vest date of grant.

(3) Represents the aggregate grant date fair value of option awards granted within the fiscal year in accordance with FASB ASC Topic 718 for stock-based compensation. These amounts reflect the total grant date fair value for these awards and do not correspond to the actual cash value that will be recognized by the grantee when received. For a detailed discussion of the assumptions made in the valuation of option awards, please see the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

(4) Amounts set forth in the All Other Compensation column consist of the following:

Item	Mr. Atsinger ($)	Mr. Evans ($)	Mr. Santrella ($)
Perquisites and Other Personal Benefits (2018)	108,015	6,300	5,287
Company Contributions to 401(k) Plan (2018)		6,750	6,750

Medical, Dental, Life, Vision and Disability Premiums (2018)	15,799		
TOTAL (2018)	123,814	13,050	12,037

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

Perquisite or Personal Benefit	Mr. Atsinger ($)	Mr. Evans ($)	Mr. Santrella ($)
Personal Use of Company Vehicle (2018)	3,604		
Split-Dollar Life Insurance Premiums (2018)	101,308		
Supplemental Medical, Travel and Expense Reimbursement (2018)	3,103		
Supplemental Life Insurance Premiums (2018)		6,300	5,287
TOTAL (2018)	108,015	6,300	5,287

Outstanding Equity Awards at Fiscal Year-End

The following table provides information as of December 31, 2018, in respect of all outstanding equity awards held by the NEOs.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Edward G. Atsinger III	50,000		$6.92	03/11/2020
	50,000		$6.92	03/11/2021
	2,239		$4.85	03/08/2022
	37,500		$4.85	03/08/2023
		25,000(2)	$4.85	03/08/2024
		25,000(4)	$3.25	05/09/2024
		25,000(5)	$3.25	05/09/2025
		25,000(6)	$3.25	05/09/2026
		25,000(7)	$3.25	05/09/2027
David A.R. Evans	8,750		$6.92	03/11/2019
	8,750		$6.92	03/11/2020
	8,750		$6.92	03/11/2021
	8,750		$6.92	03/11/2022
	6,250		$4.85	03/08/2022
	6,250		$4.85	03/08/2023
		6,250(2)	$4.85	03/08/2024
		6,250(3)	$4.85	03/08/2025
		10,000(4)	$3.25	05/09/2024

10,000(5)	$3.25	05/09/2025
10,000(6)	$3.25	05/09/2026
10,000(7)	$3.25	05/09/2027

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	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
David P. Santrella	8,750		$6.92	03/11/2019
	8,750		$6.92	03/11/2020
	8,750		$6.92	03/11/2021
	8,750		$6.92	03/11/2022
	20,000		$2.74	03/07/2022
	20,000		$2.74	03/07/2022
	6,250		$4.85	03/08/2022
	6,250		$4.85	03/08/2023
		20,000(1)	$2.74	03/07/2022
		6,250(2)	$4.85	03/08/2024
		6,250(3)	$4.85	03/08/2025
		10,000(4)	$3.25	05/09/2024
		10,000(5)	$3.25	05/09/2025
		10,000(6)	$3.25	05/09/2026
		10,000(7)	$3.25	05/09/2027

(1) These options vested March 7, 2019.
(2) These options vested March 8, 2019.
(3) Unexercisable options vest March 8, 2020.
(4) Unexercisable options vest May 9, 2019.
(5) Unexercisable options vest May 9, 2020.
(6) Unexercisable options vest May 9, 2021.
(7) Unexercisable options vest May 9, 2022.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2018, with respect to shares of our Class A common stock that may be issued under the Stock Plan, our only existing equity compensation plan. As of December 31, 2018, a maximum of 5,000,000 shares were authorized under the Stock Plan, of which 1,980,972 were outstanding and 1,055,716 were exercisable.

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

	exercise of outstanding options, warrants and rights (a)	**(b)**	**reflected in column (a)) (c)**
Equity compensation plans approved by security holders	1,980,972	$ 4.63	296,354
Equity compensation plans not approved by security holders			
Total			

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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 of our non-employee Directors in 2018:

Name	Fees Earned(1) ($)	Stock Awards(2) ($)	Option Awards(3) ($)	TOTAL ($)
Roland S. Hinz	52,500		15,150	67,650
Richard A. Riddle	62,000		15,150	77,150
Jonathan Venverloh	49,500		15,150	64,650
James Keet Lewis	60,000		15,150	75,150
Eric H. Halvorson	67,000		15,150	82,150
Edward C. Atsinger	40,000		15,150	55,150
Stuart W. Epperson Jr.	40,000		15,150	55,150

(1) Reflects all fees paid to non-employee Directors for participation in regular, special and telephonic meetings of the Board and committees and retainer fees.

(2) No stock was awarded to non-employee Directors in 2018. As of December 31, 2018, each Director beneficially owned the following number of shares of our Class A common stock: Mr. Hinz held 22,650 shares; Mr. Riddle held 101,891 shares; Mr. Venverloh held 35,000 shares; Mr. Lewis held 2,000 shares; Mr. Halvorson held 9,800 shares; Mr. Atsinger held 1,093,078 shares; and Mr. Epperson Jr. held 113,428 shares.

(3) Stock options were awarded to non-employee Directors in 2018. As of December 31, 2018, each Director held the following number of outstanding options to purchase our Class A common stock: Mr. Hinz held 19,500 options; Mr. Riddle held 27,000 options; Mr. Venverloh held 27,000 options; Mr. Lewis held 9,500 options; Mr. Halvorson held 7,500 options; Mr. Atsinger held 7,500 options; and Mr. Epperson Jr. held 7,500 options.

The cash compensation paid as of December 31, 2018 to our non-employee Directors (Designated Directors) as approved by our Board of Directors at the recommendation of the Compensation Committee is as follows:

COMPENSATION	AMOUNT	PAYABLE TO	PAYABLE
Annual Retainer	$ 30,000	Designated Directors	Quarterly
Attendance Fee (Full Company Board)	$ 2,500	Designated Directors	Per Regularly Scheduled Company Board Meeting
Attendance Fee (Full Company Board)	$ 1,500	Designated Directors	Per Special Telephonic Company Board Meeting
Attendance Fee (Board Committee)	$ 1,500	Designated Director Committee Members	Per Regularly Scheduled or Noticed Committee Meeting
Chairperson Fee	$ 2,000	Chairperson of Audit and Compensation Committees	Per Regularly Scheduled or Noticed Committee Meeting

(Audit and Compensation Committees)				
Chairperson Fee (Nominating and Corporate Governance Committee)	$	1,000	Chairperson of Nominating and Corporate Governance Committee	Per Regularly Scheduled or Noticed Committee Meeting
Attendance Fee (Special Committee)	$	1,500	Special Committee Members	Per Special Committee Meeting or Task
Chairperson Fee (Special Committee)	$	1,000	Special Committee Members	Per Special Committee Meeting or Task

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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 this compensation determined by the establishing body at the time the special committee or subcommittee is established. Designated Directors who are also chairmen of our Board committees receive the applicable chairperson fee in addition to a committee attendance fee for each regularly scheduled Board committee meeting. Designated Directors also receive reimbursement for all reasonable out-of-pocket expenses in connection with travel to and attendance at regularly scheduled Board and Board committee meetings.

Directors who are also employees (Stuart W. Epperson, Chairman of the Board, and Edward G. Atsinger III, CEO) are not additionally compensated for their services as Directors. Compensation for Mr. 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 Media Group, Inc. and its subsidiaries (the Corporation) specifically incorporates this information by reference into such filing, and shall not otherwise be deemed filed under such Acts.

The purpose of the Audit Committee (the Committee) is to oversee, on behalf of the entire board of directors (the Board): (a) the accounting and financial reporting processes of the Corporation, (b) the audits of the Corporation s financial statements, (c) the qualifications, independence and performance 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 2018, the ComSTYLE="BORDER-COLLAPSE:COLLAPSE; font-family:Times New Roman; font-size:10pt" BORDER="0" CELLPADDING="0" CELLSPACING="0" WIDTH="100%"> the Company promptly (and in any event within 24 hours) notified the Investor in writing of the receipt of an acquisition proposal or any request for non-public information relating to the Company or any of its subsidiaries other than requests for information in the ordinary course of business, including the identity of the third party and a copy of, or description of the material terms of, the acquisition proposal;

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the Company promptly (and in any event within 24 hours) notified the Investor in writing of its decision to enter into discussions or negotiations with third parties concerning an acquisition proposal;

the Board has determined, after consultation with its financial and outside legal advisors, that the acquisition proposal constitutes a superior proposal;

the Board has determined that failure to take such action would reasonably be expected to be inconsistent with the fiduciary duties of the Company s directors;

the Company has provided the Investor at least five business days prior written notice of the Company s intention to effect a Change of Board Recommendation, which notice will include material terms and conditions of the acquisition proposal, and provided the Investor a copy of the available proposed transaction agreement to be entered into in respect of such acquisition proposal;

the Company and its legal and financial advisors have engaged in good faith negotiations with the Investor regarding amendments to the Securities Purchase Agreement proposed in writing by the Investor during such five business day notice period; and

the Board has considered any adjustments and/or proposed amendments to the Securities Purchase Agreement and have determined in good faith that a superior proposal would continue to constitute a superior proposal if such proposals were to be given effect.

In addition, the Board may terminate the Securities Purchase Agreement to enter into a definitive agreement solely with respect to a superior majority proposal (as defined below), provided that the Company pays a termination fee in advance of or concurrently with its entry into a definitive agreement with respect to such superior majority proposal (as more fully described in the section entitled *Termination Fee; Effect of Termination*).

A material revision or amendment to the superior proposal will require the Company to deliver a new written notice to the Investor and to again comply with the above requirements, except that the five business day notice period described above is reduced to three business days with respect to such revised superior proposal.

The Board may also make a Change of Board Recommendation (but may not terminate the Securities Purchase Agreement) in circumstances other than in response to an acquisition proposal if, prior to obtaining stockholder approval of the Share Issuance:

(a) the Board (or a duly authorized committee thereof) determines that an intervening event (as defined below) has occurred and is continuing; and (b) the Board (or a duly authorized committee thereof) determines, after consultation with its legal advisor, that the failure to effect a Change of Board Recommendation in response to such intervening event would reasonably be expected to be inconsistent with its fiduciary duties to the stockholders of the Company;

the Company has provided the Investor with five business days prior written notice advising the Investor of the Company s intention to take such action and specifying all available material information with respect to such intervening event;

the Company and its legal and financial advisors have, if requested by the Investor, engaged in good faith negotiations with the Investor regarding amendments to the Securities Purchase Agreement proposed in writing by the Investor during such five business day notice period; and

the Board has considered any adjustments and/or proposed amendments to the Securities Purchase Agreement and have determined in good faith that an intervening event would continue to constitute an intervening event if such proposals were to be given effect.

For the purposes of the Securities Purchase Agreement, the term acquisition proposal means any offer or proposal from a third party concerning (i) a merger, consolidation or other business combination transaction

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involving the Company, (ii) a sale, lease or other disposition by merger, consolidation, business combination, share exchange, joint venture or otherwise, of assets of the Company (including equity interests of any subsidiary of the Company) or its subsidiaries for consideration, representing 25% or more of the consolidated assets of the Company and its subsidiaries, based on their fair market value as determined in good faith by the Board (or any duly authorized committee thereof), (iii) an issuance (including by way of merger, consolidation, business combination or share exchange) of equity interests representing 25% or more of the voting power of the Company, or (iv) any combination of the foregoing (in each case, other than the transactions contemplated by the Securities Purchase Agreement).

For the purposes of the Securities Purchase Agreement, the term superior majority proposal means a bona fide written acquisition proposal (except the references to 25% in parts (ii) and (iii) of the definition thereof will be replaced by 50.01%) that the Board (or a duly authorized committee thereof) determines in good faith, after consultation with its financial advisor and outside counsel, taking into account such factors as the Board (or any duly authorized committee thereof) considers in good faith to be appropriate (including the conditionality, timing and likelihood of consummation of such proposal), is more favorable from a financial point of view to the Company and its stockholders than the transactions contemplated by the Securities Purchase Agreement.

For the purposes of the Securities Purchase Agreement, the term superior minority proposal means a bona fide written acquisition proposal (except the references to 25% or more in parts (ii) and (iii) of the definition thereof will be replaced by between 40% and 50.01%) that the Board (or a duly authorized committee thereof) determines in good faith, after consultation with its financial advisor and outside counsel, taking into account such factors as the Board (or any duly authorized committee thereof) considers in good faith to be appropriate (including the conditionality, timing and likelihood of consummation of such proposal), is more favorable from a financial point of view to the Company and its stockholders than the transactions contemplated by the Securities Purchase Agreement.

For the purposes of the Securities Purchase Agreement, the term superior proposal means a superior majority proposal or a superior minority proposal, as applicable.

For the purposes of the Securities Purchase Agreement, the term intervening event means any event, circumstance, change, effect, development, state of facts, condition or occurrence (including any acceleration or deceleration of existing changes or developments) that is material to the Company and its subsidiaries that (i) was not known or reasonably foreseeable (or, if known, the consequences of which were not known or reasonably foreseeable) to the Board as of or prior to the date of the Securities Purchase Agreement, and (ii) does not involve an acquisition proposal.

Moreover, from the date of the Securities Purchase Agreement until the earlier of December 31, 2018 and the termination of the Securities Purchase Agreement (other than as a result of a superior minority proposal that is not accompanied by a Competing China JV Proposal (as defined below)), the Company has agreed not, and to cause its subsidiaries not, and instructed its representatives not, on behalf of the Company, to:

initiate, solicit or intentionally encourage the submission of any proposal for, or engage in any discussions or negotiations with respect to or in connection with any joint venture involving, or acquisition of, the Company s business in the PRC (a Competing China JV Proposal);

disclose or furnish non-public information or afford access to its properties, books or records to any third party in connection with a Competing China JV Proposal (other than informing any third party of the

Company s non-solicitation obligations); or

enter into any definitive agreement, letter of intent or similar agreement related to a Competing China JV Proposal;

except that the Company may enter into discussions or negotiations with or provide disclosures of non-public information to, a third party in the event that (i) the Company receives an acquisition proposal from the third

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party that contains or is conditioned upon a Competing China JV Proposal and (ii) the Board (or a duly authorized committee thereof) determines to enter into discussions or negotiations with such third party or to disclose non-public information to such third party in response to such acquisition proposal.

The Company agreed to promptly cease discussions or negotiations that may have been conducted prior to the date of the Securities Purchase Agreement with any parties with respect to a Competing China JV Proposal and to request to have returned to it or have destroyed any information that had been provided to any such party.

Required Stockholder Vote

As promptly as practicable, and in any event within fifteen business days following the date on which the SEC confirms it has no further comment to this proxy statement, the Company is obligated to use commercially reasonable efforts to mail this proxy statement to holders of the Company s Common Stock as of the record date (not to be more than thirty days after the mailing of this proxy statement). Subject to the provisions of the Securities Purchase Agreement, the Company will take all action necessary in accordance with the Delaware General Corporation Law, the NYSE and the Company s organizational documents to duly call, give notice of, convene and hold a meeting of the stockholders promptly following the mailing of this proxy statement, for the purpose of obtaining the approval of the Share Issuance.

Subject to a Change of Board Recommendation, the Company will use its commercially reasonable efforts to solicit proxies in favor of the adoption of the Securities Purchase Agreement, including by postponing or adjourning the stockholder meeting from time to time by up to a total of ten business days to allow additional solicitation of votes if necessary to obtain stockholder approval. Subject to limits specified in the Securities Purchase Agreement in certain cases, such stockholder meeting may also be postponed or adjourned (i) with the consent of the Investor, (ii) if a quorum has not been established, (iii) to allow reasonable additional time for the filing and mailing of supplemental or amended disclosure which the Board has determined in good faith after consultation with outside legal and financial advisors and the Investor is necessary under applicable law and for such supplemental or amended disclosure to be disseminated and reviewed by the Company s stockholders prior to the meeting, or (iv) if required by law. Subject to the Company s right to effect a Change of Board Recommendation (in certain circumstances, as described above), the Company is obligated to include in this proxy statement the recommendation of the Board that the Company s stockholders vote in favor of the proposal to approve the Share Issuance.

Consents, Approvals and Filings

The Company and the Investor have each agreed, subject to the terms of the Securities Purchase Agreement, to use their reasonable best efforts to:

- prepare and file as promptly as practicable with any governmental entity or other third party all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents; and

- obtain and maintain all approvals, consents, registrations, permits, authorizations and other confirmations required to be obtained from any governmental entity or other third party that are necessary to consummate the transactions contemplated by the Securities Purchase Agreement, including the CFIUS Clearance and the PRC Approvals.

HSR Act

Each of the Company and the Investor have determined that a filing of a Notification and Report Form pursuant to the HSR Act is not required, and, accordingly, have agreed that the condition to closing of the Share Issuance under the Securities Purchase Agreement related to the HSR Act is deemed to be satisfied.

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CFIUS

Each of the Investor and the Company will use its reasonable best efforts to obtain CFIUS Clearance as promptly as practicable. As promptly as practicable after the execution of the Securities Purchase Agreement, the Investor and the Company will prepare, pre-file a draft joint voluntary notice, and then as soon as reasonably practicable thereafter, file with CFIUS a joint voluntary notice pursuant to Section 721 with respect to the transactions contemplated by the Securities Purchase Agreement. The Company and the Investor will, as promptly as practicable, provide CFIUS with any additional or supplemental information requested by CFIUS or its constituent agencies during the review process.

The Company and the Investor will also take, or cause to be taken, all actions that are customarily undertaken or reasonably achieved to obtain CFIUS Clearance so as to enable the Closing to occur as promptly as practicable, including promptly making any pre-notification and notification filings required in connection with CFIUS Clearance, and providing any information requested by CFIUS or any other agency or branch of the United States government in connection with their review of the transactions contemplated by the Securities Purchase Agreement.

Such efforts will include, to the extent necessary to obtain CFIUS Clearance, the execution of mitigation agreements containing terms customarily included in such mitigation agreements, provided however that no party will be required to enter into any agreement that materially interferes with the Investor s ability to exercise any and all rights accorded to it pursuant to the terms of the Securities Purchase Agreement in any material respect. With respect to any mitigation, the Investor and the Company will be entitled to a reasonable period of time to engage in discussions and negotiations with CFIUS and between themselves on the nature and scope of such measures, to ensure that any agreed upon measures are reasonable without any adverse material effect on the Investor, the Company or its subsidiaries.

The Investor will not be required to enter into any agreement, consent decree or other commitment to sell the Convertible Preferred Stock as a condition to receiving CFIUS Clearance.

Each of the Investor and the Company will promptly furnish to the other copies of any notices or written communications received by such party or any of its affiliates from CFIUS or any of its constituent agencies with respect to the transactions contemplated by the Securities Purchase Agreement, unless otherwise prohibited by CFIUS or applicable laws. Each of the Investor and the Company will permit the other s counsel to have an opportunity to review in advance, and such party will consider in good faith the views of such counsel in connection with, any proposed communications by such party or its affiliates to CFIUS concerning the transactions contemplated by the Securities Purchase Agreement. Each of the Investor and the Company may, as either party deems advisable and necessary, reasonably designate any competitively sensitive materials or information provided to the other party as outside counsel only. Such materials and the information contained therein will be given only to the outside legal counsel of the other party, and such party will cause such outside counsel not to disclose such materials or information to any employees, officers, directors or other representatives of the Company, unless express written permission is obtained in advance from the party providing such materials and information.

PRC Approvals

Following the date of the Securities Purchase Agreement, the Investor will:

make all appropriate filings required in connection with the PRC Approvals as promptly as practicable within the applicable period required by applicable law, and supply as promptly as practicable any additional information and documentary material that may be requested pursuant to applicable law in connection with the PRC Approvals; and

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to the extent permitted by applicable law, promptly inform the Company of any oral communication with, and provide copies of written communications with, any governmental entity regarding the PRC Approvals and share with the Company any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of the Investor relating to the PRC Approvals; provided, that in each case above, the Company will reasonably cooperate with the Investor to provide the information and documents required for obtaining the PRC Approvals and will assist the Investor in promptly responding to any requests for information and/or documents from any governmental entity in connection with making such applications and/or filings to obtain the PRC Approvals.

From and after the date of the Securities Purchase Agreement until the earlier of the Closing and the termination of the Securities Purchase Agreement, unless prohibited by applicable law, each party will give prompt notice to the other party if any of the following occur:

receipt of any notice or other communication in writing from any person alleging that the consent or approval of such person is or may be required in connection with the transactions contemplated by the Securities Purchase Agreement;

receipt of any notice or other communication from any governmental entity in connection with the transactions contemplated by the Securities Purchase Agreement; or

such party becoming aware of the occurrence of an event that would reasonably be expected to prevent or delay, beyond November 13, 2018 (as may be extended, the Outside Date), the consummation of the transactions contemplated by the Securities Purchase Agreement or that would reasonably be expected to result in any of the conditions to the Closing not being satisfied.

Other Covenants and Agreements

The Securities Purchase Agreement contains certain other covenants and agreements, including covenants relating to:

cooperation between the Company and the Investor in the preparation and filing of this proxy statement;

reasonable access to information about the Company and any of its subsidiaries to be given to the Investor;

confidentiality obligations of and access by the Investor to certain information about the Company pursuant to the confidentiality agreement between the Company and the Investor;

the Investor s obligation to provide (within ten business days of the date of the Securities Purchase Agreement) the Company with a complete and accurate schedule of all individuals and entities that hold, own or control equity in the Investor of 5% or greater, all individuals and entities that are affiliated with any foreign government or may be foreign government controlled under Section 721 of the Defense Production Act, and any foreign government or person controlled by a foreign government that holds interest in the

Investor;

obtaining the prior written consent of the other party prior to public announcements with respect to the Securities Purchase Agreement or the transactions contemplated thereby;

the Company s use of reasonable best efforts to obtain debt refinancing and to keep the Investor reasonably informed of any material developments with respect thereto;

the Company and the Investor using their commercially reasonable best efforts to identify alternative financing arrangements for the Company s indebtedness;

the Company and the Investor using their respective reasonable best efforts to negotiate in good faith definitive documentation with respect to the Joint Venture;

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the Company and the Board taking all action reasonably available to it to render takeover statutes inapplicable;

the Company s commitment to cause the authorized capital stock of the Company to include a sufficient number of authorized but unissued shares of Common Stock to satisfy the Investor s right to convert Convertible Preferred Stock into Underlying Shares;

the Company s obligation not to sell, offer for sale or solicit offers to buy or otherwise negotiate any security that would be integrated with the offer or sale of the Convertible Preferred Stock or the Underlying Shares in a manner that would require registration under the Securities Act of the Convertible Preferred Stock or Underlying Shares to the Investor;

the Company s obligation to submit an application to the NYSE for the listing of the Underlying Shares or the securities laws of any state, as applicable;

the Company s obligation to take all necessary action to increase the size of the Board to eleven directors (each a Director);

the Company and the Investor will cooperate to identify their designees to the Board as promptly as practicable, and in any event no later than thirty business days prior to the Closing;

the Board s duty to take all necessary actions to cause the Certificate of Designations to be adopted and filed with the Secretary of State of the State of Delaware and to cause the Bylaws to be amended and restated;

cooperation of the Company and the Investor to use reasonable best efforts to promptly, but in no event later than fifteen business days after the signing of the Securities Purchase Agreement, negotiate and execute an escrow agreement with JPMorgan Chase Bank, N.A., Hong Kong Branch (or another internationally recognized bank with a branch in Hong Kong) in accordance with the terms of the Securities Purchase Agreement;

the Investor s obligation, prior to Closing, to assign the Securities Purchase Agreement to Harbin Pharmaceutical Group Co., Ltd.; and

the Investor s obligation to, as promptly as practicable following the signing of the Securities Purchase Agreement, cause a letter of credit from a reputable bank, in an amount equal to the Purchase Price, to be issued in favor of the Company.

Conditions to Completion of the Issuance, Purchase and Sale of the Convertible Preferred Stock

The obligations of the Company and the Investor to complete the issuance, purchase and sale of the Convertible Preferred Stock are subject to the satisfaction or waiver (to the extent permitted by applicable law) by the Company and the Investor at or prior to the Closing of each of the following conditions:

- the approval of the Share Issuance by the Company s stockholders;
- the absence of an order, decree of judgment of any government entity having competent jurisdiction that prohibits or makes illegal the transactions contemplated by the Securities Purchase Agreement or the Credit Agreement Refinancing;
- the receipt of the PRC Approvals and CFIUS Clearance; and
- the entrance into the Joint Venture.

The obligations of the Company to complete the issuance, purchase and sale of the Convertible Preferred Stock are subject to the satisfaction or waiver by the Company at or prior to the Closing of each of the following conditions:

- each representation and warranty of the Investor contained in the Securities Purchase Agreement, without giving effect to any qualifications as to materiality or Company material adverse effect or other

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similar qualifications contained therein, being true and correct at and as of the date of the Securities Purchase Agreement and as of the Closing as though made on the Closing, except for representations and warranties that relate to a specific date or time (which need only be true and correct as of such date or time), and except as has not had and would not reasonably be expected to have, individually or in the aggregate with all other failures to be true or correct, a Company material adverse effect on the ability of the Investor or its affiliates to perform its obligations under the Securities Purchase Agreement or under any of the documents contemplated thereby;

the Investor having performed or complied in all material respects with all covenants and agreements required to be performed or complied with by it under the Securities Purchase Agreement at or prior to the Closing;

the Investor having delivered to the Company a certificate, dated as of the Closing and signed by an executive officer of the Investor, certifying to the effect that the conditions in the two bullets above have been satisfied; and

the Investor having delivered to the Company executed copies of the Registration Rights Agreement and the Stockholders Agreement.

The Investor s obligations to complete the issuance, purchase and sale of the Convertible Preferred Stock are subject to the satisfaction or waiver by the Investor at or prior to the Closing of each of the following conditions:

the representations and warranties of the Company relating to due organization, authority, valid issuance of Convertible Preferred Stock and broker s fees being true and correct at and as of the date of the Securities Purchase Agreement and as of the Closing as though made on the Closing, except for representations and warranties that relate to a specific date or time (which need only be true and correct in all material respects as of such date or time);

the representations and warranties of the Company related to capitalization of the Company being true in all but *de minimis* respects as of the date of the Securities Purchase Agreement and as of the Closing as though made on the Closing;

each other representation and warranty of the Company, without giving effect to any qualifications as to materiality or Company material adverse effect contained therein, being true and correct at and as of the date of the Securities Purchase Agreement and as of the Closing as though made on the Closing, except for representations and warranties that relate to a specific date or time (which need only be true and correct as of such date or time), except as has not had and would not reasonably be expected to have, individually or in the aggregate with all other failures to be true or correct, a Company material adverse effect;

the Company having performed and complied in all material respects with all covenants and agreements required to be performed or complied with by it under the Securities Purchase Agreement at or prior to the

Closing;

the Company having delivered to the Investor a certificate, dated the Closing and signed by an executive officer of the Company, certifying to the effect that the conditions set forth in the first four bullets above have been satisfied;

the Company having delivered to the Investor a good standing certificate of the Company;

each member of the Board that is not a Company Designee (as defined below in the section entitled *Stockholders Agreement Composition of the Board*) or the Chief Executive Officer having resigned from the Board effective as of the Closing;

the Board having caused each individual designated to the Board by the Company or the Investor, as applicable, to be appointed to the Board, effective as of the Closing;

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the Company having filed the Certificate of Designations and Bylaws with the Secretary of State of the State of Delaware and delivered to the Investor a copy of the Company s certificate of incorporation and Bylaws, certified by the Secretary of the Company;

the Company having made any required filings and submitted any required certifications regarding the issuance or listing of additional shares with the NYSE; and

the Company having delivered to the Investor executed copies of the Registration Rights Agreement and the Stockholders Agreement.

Termination of the Securities Purchase Agreement

The Securities Purchase Agreement may be terminated at any time prior to the Closing by mutual written consent of each of the Company and the Investor, by action of their respective boards of directors.

In addition, either the Company or the Investor may terminate the Securities Purchase Agreement prior to the Closing, if:

approval of the Share Issuance by the Company s stockholders has not been obtained upon a vote taken at the Special Meeting or any adjournments or postponements thereof;

if any court of competent jurisdiction or other governmental entity of competent jurisdiction has issued an order or taken any other action, in each case, permanently restraining, enjoining or otherwise prohibiting, prior to the Closing, the consummation of the transactions contemplated by the Securities Purchase Agreement, and such order or other action will have become final and non-appealable; provided that the right to terminate the Securities Purchase Agreement for this reason will be available only if the party seeking to terminate has complied with its covenants regarding competition laws before asserting the right to terminate and provided, further, that this right of termination will not be available to any party whose failure to comply with its obligations under the Securities Purchase Agreement has been the primary cause of or resulted in such order or action; and

the Closing has not occurred on or before the Outside Date; provided, however, that if all of the Closing conditions except those related to the PRC Approvals, CFIUS Clearance or related legal restraints have been satisfied or duly waived by all parties entitled to the benefit of such conditions, either the Company or the Investor may, by written notice delivered to such other party, extend the Outside Date to February 13, 2019; provided, further, that this right to terminate will not be available to any party whose material breach of any obligations of the Securities Purchase Agreement has been the primary cause of, or resulted in, the failure of the Closing to have occurred.

The Securities Purchase Agreement may also be terminated by the Investor, at any time prior to receipt of approval of the Share Issuance by the Company s stockholders, if:

the Board has effected a Change of Board Recommendation or the Company has failed to include the Board s recommendation in the proxy statement; and

the Company has entered into a merger agreement, stock purchase agreement, letter of intent or other similar agreement relating to an acquisition proposal;

provided, that the Investor s right to terminate the Securities Purchase Agreement shall expire at 5:00 p.m. (New York City time) on the tenth calendar day following the date on which the event first permitting such termination occurred.

The Securities Purchase Agreement may also be terminated by the Investor, at any time prior to the Closing, if:

there has been a breach by the Company of the Company s representations, warranties or covenants contained in the Securities Purchase Agreement, in either case, such that the mutual conditions to Closing or the Investor s conditions to Closing are not reasonably capable of being satisfied while the Company s breach is continuing;

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the Investor has delivered to the Company written notice of such breach; and

such breach is not capable of cure in a manner sufficient to allow satisfaction of the mutual conditions to closing or the Investor s conditions to Closing prior to the Outside Date or at least thirty days will have elapsed since the date of delivery of such written notice to the Company and such breach will not have been cured in all material respects; provided, however, that the Investor will not be permitted to terminate the Securities Purchase Agreement if there has been any material breach by the Investor of the Investor s material representations, warranties or covenants contained in the Securities Purchase Agreement, and such breach will not have been cured in all material respects.

The Securities Purchase Agreement may also be terminated by the Company, at any time prior to receipt of approval of the Share Issuance by the Company s stockholders, if the Board determines to accept a superior majority proposal, but only if the Company has complied in all material respects with its obligations under the Securities Purchase Agreement with respect to such superior majority proposal; provided that the Company pays a termination fee concurrently with such termination (as more fully described in the section entitled *Termination Fee; Effect of Termination*).

The Securities Purchase Agreement may also be terminated by the Company, at any time prior the Closing, if:

there has been a breach by the Investor of any of the Investor s representations, warranties or covenants contained in the Securities Purchase Agreement, in either case, such that the mutual conditions to Closing or the Company s conditions to Closing are not reasonably capable of being satisfied while the Investor s breach is continuing;

the Company has delivered to the Investor written notice of such breach; and

either such breach is not capable of cure in a manner sufficient to allow satisfaction of the mutual conditions to Closing or the Company s conditions to Closing prior to the Outside Date or at least thirty days will have elapsed since the date of delivery of such written notice to the Investor and such breach will not have been cured in all material respects; provided, however, that the Company will not be permitted to terminate the Securities Purchase Agreement if there has been any material breach by the Company of the Company s material representations, warranties or covenants contained in the Securities Purchase Agreement, and such breach will not have been cured in all material respects.

The Company may also terminate, at any time, if all of the mutual conditions to Closing of the Company and the Investor (other than conditions that by their nature can only be satisfied on the Closing) have been satisfied, the Company has confirmed in writing that it is prepared to consummate the Closing, and the Investor fails to consummate the Closing within five business days following delivery of such written confirmation by the Company to the Investor.

Termination Fee; Effect of Termination

Under the Securities Purchase Agreement, the Company will be required to pay the Investor a company termination fee of $10 million under the following circumstances:

if the Securities Purchase Agreement is terminated by the Investor, at any time prior to the receipt of approval of the Share Issuance by the Company s stockholders, because the Board has effected a Change of Board Recommendation or the Company has entered into a merger agreement, stock purchase agreement, letter of intent or similar agreement relating to an acquisition proposal;

if the Securities Purchase Agreement is terminated by the Company, at any time prior to the receipt of approval of the Share Issuance by the Company s stockholders, because the Board determines to accept a superior majority proposal; or

if (i) the Securities Purchase Agreement is terminated by the Company or the Investor as a result of failure to obtain the approval of the Company s stockholders for the Share Issuance, (ii) an acquisition

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proposal for at least 40% of the consolidated assets or voting power of the Company has been publicly announced after the date of the Securities Purchase Agreement but before the Special Meeting, (iii) the Company enters into a definitive agreement with respect to any such acquisition proposal within nine months after such termination and (iv) a transaction with respect to such acquisition proposal is eventually consummated.

Under the Securities Purchase Agreement, the Company will be required to pay the Investor a minority transaction termination fee of $18 million under the following circumstance:

- if the Securities Purchase Agreement is terminated by the Investor, at any time prior to the receipt of approval of the Share Issuance by the Company s stockholders, due to a Change of Board Recommendation or the Company s entrance into a definitive transaction agreement relating to an acquisition proposal; and

- prior to such termination, the Board effects a Change of Board Recommendation with respect to a superior minority proposal.

In the event the Securities Purchase Agreement is terminated due to a failure to obtain approval of the Company s stockholders, and the Board effects a Change of Board Recommendation with respect to a superior minority proposal, the Company shall also pay to the Investor reasonable documented out-of-pocket costs, fees and expenses incurred by the Investor in connection with the negotiation and documentation of the Securities Purchase Agreement, up to $3,000,000 in the aggregate.

Under the Securities Purchase Agreement, the Investor will be required to pay Company an investor termination fee of $18 million under the following circumstances:

- if the Securities Purchase Agreement is terminated, at any time prior to the Closing, by the Company due to an uncured breach of the Investor s representations, warranties or covenants contained in the Securities Purchase Agreement or Investor s failure to consummate the Closing for five business days despite the Closing conditions being satisfied;

- if the Securities Purchase Agreement is terminated by either party because the conditions to Closing have not been satisfied by the Outside Date, where the Company could terminate the Securities Purchase Agreement in accordance with the bullet above; and

- if the Securities Purchase Agreement is terminated by the Investor or the Company due to failure to obtain PRC Approvals or CFIUS Clearance prior to the Outside Date and all other conditions to closing have been satisfied or waived or if a court of competent jurisdiction issues an order related to the PRC Approvals or CFIUS Clearance that prohibits the Closing.

On March 6, 2018, the Investor caused the Guarantor to deposit an amount equal to the investor termination fee into an escrow account with JPMorgan Chase Bank, N.A., Hong Kong Branch (the Escrow Agent) and entered into an escrow agreement with respect to such account with the Guarantor, the Company and the Escrow Agent.

In circumstances where the parties respective termination fees are payable in accordance with the provisions of the Securities Purchase Agreement, either party s receipt of the other party s termination fee (if received) will be each party s sole and exclusive remedy (whether based in contract, tort or strict liability, by the enforcement of any assessment, by any legal or equitable proceeding, by virtue of any statute, regulation or applicable laws or otherwise) against the other party and its subsidiaries and any of their respective former, current or future direct or indirect equity holders, general or limited partners, controlling persons, stockholders, members, managers, directors, officers, employees, agents, affiliates or assignees for all losses and damages suffered as a result of the transactions contemplated by the Securities Purchase Agreement to be completed, for any breach or failure to perform under the Securities Purchase Agreement or otherwise, and upon payment of such amount, no such

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person will have any further liability or obligation relating to or arising out of the Securities Purchase Agreement or the transactions contemplated thereby, except in the event of a willful and material breach by the Investor.

Fees and Expenses

All fees and expenses incurred in connection with the Securities Purchase Agreement, the issuance, purchase and sale of the Convertible Preferred Stock and the other transactions contemplated by the Securities Purchase Agreement will be paid solely and entirely by the party incurring such fees or expenses, with certain exceptions expressly set forth in the Securities Purchase Agreement. These exceptions include certain expense reimbursements in the event of termination, as described in the section entitled *Termination Fee; Effect of Termination*.

Specific Performance

The Securities Purchase Agreement generally provides that the parties will be entitled, without posting a bond or other indemnity, to an injunction, specific performance and other equitable relief to prevent breaches of the Securities Purchase Agreement and to enforce specifically the terms and provisions of the Securities Purchase Agreement, in addition to any other remedy to which they are entitled at law or in equity.

Third Party Beneficiaries

The Securities Purchase Agreement provides that it will be binding upon, inure to the benefit of and be enforceable by the Company and the Investor and their respective successors and assigns. The Securities Purchase Agreement is not intended to and will not confer any rights, benefits or remedies of any nature whatsoever upon any person other than the Company and the Investor and their respective successors and assigns.

Amendments; Waivers

The Securities Purchase Agreement may be amended by mutual agreement of the parties to the Securities Purchase Agreement by action taken by or on behalf of their respective boards of directors at any time before or after receipt of the approval of the Share Issuance by the Company stockholders. However, after receipt of approval by the Company stockholders, no amendment may be made which, by law or in accordance with the rules of any relevant stock exchange, requires further approval by the Company s stockholders, unless approval is again obtained from the Company stockholders with respect to the effectiveness of such amendment.

At any time prior to the Closing, the Company or the Investor may extend the time for performance of any obligations or acts of the other, waive any breach of the representations and warranties of the other or waive compliance by the other with respect to any of the agreements or covenants contained in the Securities Purchase Agreement. However, after receipt of approval by the Company stockholders, no extension or waiver may be made which, by law or in accordance with the rules of any relevant stock exchange, requires further approval by the Company s stockholders, unless approval is again obtained from the Company stockholders with respect to the effectiveness of such extension or waiver.

Stockholders Agreement

In connection with the Securities Purchase Agreement, the Company will, at the Closing, enter into the Stockholders Agreement with the Investor. The following is a summary of selected provisions of the Stockholders Agreement.

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Composition of the Board

At the Closing, the Board shall be comprised of eleven Directors. For so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), the Investor shall have the right to nominate up to five Directors (the Investor Designees), the Company shall have the right to nominate five or more Directors and the Company s chief executive officer shall be entitled to be nominated as a Director (other than the Investor Designees, collectively, the Company Designees). The number of the Investor Designees will be adjusted from time to time, not to exceed five, in accordance with the Stockholders Agreement, to equal the Investor s proportionate ownership of the Company. Upon the Investor s material, uncured breach of certain material terms of the Stockholders Agreement or its ownership percentage of outstanding Common Stock (on an as-converted basis) decreasing below 15%, the Investor s nomination right shall be terminated. Two of the initial Investor Designees shall be independent . However, if the Investor is only entitled to nominate four Investor Designees, only one shall be required to be independent and if the Investor is only entitled to nominate three Investor Designees, none shall be required to be independent . Each of the Investor Designees is required to be reasonably satisfactory to the Board s Nominating and Corporate Governance Committee. Each of the Company Designees (other than the Company s chief executive officer) shall be required to be an independent director.

In addition to the requirements above, each Investor Designee shall, among other requirements, (i) meet and comply in all material respects with any and all policies, rules, standards and guidelines of the Company applicable to all non-employee Directors, (ii) meet and comply in all material respects with all applicable requirements of the NYSE for service as a director, (iii) not be an employee, officer or director of, or consultant to, a direct competitor of the Company, (iv) have demonstrated good judgment and have relevant international or other business experience and (v) have executed a confidentiality agreement with the Company.

Board Supermajority Voting

At the Closing, the Bylaws will be amended and restated to require that two-thirds of the Company s Directors, including, for so long as the Investor owns at least 25% of the outstanding Common Stock (on an as-converted basis), at least one non-independent Investor Designee, vote in favor of the following matters in order for them to be approved:

- any alteration, amendment or repeal of any provision of the Company s certificate of incorporation, Bylaws or other organizational documents;
- any creation of a committee of the Board or delegation of authority to a committee of the Board (other than a committee constituted of independent Directors formed with respect to a matter for which one or more Directors has recused themselves due to a conflict of interest);
- any extraordinary purchase, repurchase or redemption of capital stock, or any extraordinary dividend or other distribution thereon;
- any appointment or removal of any Director, otherwise than in accordance with the Company s organizational documents and the Stockholders Agreement;

any increase or decrease of the size of the Board;

the acceptance of any transaction or series of transactions that would (i) result in the stockholders of the Company immediately preceding such transaction beneficially owning less than 35% of the total outstanding equity securities of the Company (on an as-converted basis) in the surviving or resulting entity of such transaction (measured by voting power or economic interest), (ii) result in any person or group beneficially owning more than 35% of the outstanding equity securities of the Company (on an as-converted basis and measured by voting power or economic interest), or (iii) involve a disposition, directly or indirectly, of all or substantially all of the consolidated assets of the Company (any such, for

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the purposes of the Stockholders Agreement, an Acquisition), other than with respect to a sale of 100% of the equity securities of the Company to a third party in a transaction in which all stockholders receive the same per share consideration;

any amendment or modification of that certain Convertible Notes Indenture that would cause the conversion price per share of Common Stock for the Company s 1.5% Convertible Senior Notes, issued on August 10, 2015 pursuant to the Convertible Notes Indenture, in an original aggregate principal amount of $287,500,000, due in 2020 (the Convertible Notes) to be less than the Conversion Price for the Convertible Preferred Stock;

any conversion of the Convertible Notes into Common Stock, or repurchase or redemption of the Convertible Notes in exchange for Common Stock, at a conversion or purchase price per share of Common Stock that is less than the Conversion Price for the Convertible Preferred Stock;

any issuance of equity securities senior to or pari passu with the Convertible Preferred Stock; or

the commencement of bankruptcy or receivership proceedings, or the adoption of a plan of complete or partial liquidation.

Such voting standard shall also be required, for a period of three years after the Closing, for the Board to approve the matters set forth below:

the removal or replacement of the Chief Executive Officer, President, Chief Financial Officer, Secretary, Treasurer or any other executive officer;

the incurrence of indebtedness of the Company in excess of $10 million in respect of any single transaction or in a series of related transactions; or

any other issuance of new equity securities in excess of $10 million in any single transaction or series of related transactions.

Voting Requirements

For so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), the Investor shall vote the shares it beneficially owns in stockholder elections of Directors (a) affirmatively in favor of the election of each Investor Designee, (b) except in a contested election, affirmatively in favor of the election of each Company Designee and (c) in a contested election, either (at the Investor s election) consistent with the recommendation of the Board or in the same proportion as the voting securities of the Company not beneficially owned by the Investor are voted.

For so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), with respect to a stockholder vote on an Acquisition, the Investor shall vote the shares it beneficially owns either (at the

Investor s election) consistent with the recommendation of the Board or in the same proportion as the voting securities of the Company not beneficially owned by the Investor are voted. The Investor may vote the shares it beneficially owns in its sole discretion in any stockholder vote that occurs within one year of the Closing regarding an Acquisition in which the consideration per share of Common Stock is less than $5.35.

For all other matters, for so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), the Investor shall vote the shares it beneficially owns either (at the Investor s election) consistent with the recommendation of the Board or in the same proportion as the voting securities of the Company not beneficially owned by the Investor are voted.

Transfer Restrictions

For two years after the Closing, the Investor shall not transfer any shares of Common Stock or Convertible Preferred Stock unless the transfer:

is approved in advance by a majority of the independent and disinterested members of the Board;

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is to any Investor affiliate that becomes a party to the Stockholders Agreement;

is to the Company in connection with a Fundamental Change (as defined in the Certificate of Designations) or redemption pursuant to the Certificate of Designations;

is in connection with any Acquisition approved by the Board; or

the transfer constitutes a tender into a tender or exchange offer commenced by the Company.

After such two year restricted period and until the Investor owns less than 10% of the outstanding Common Stock (on an as-converted basis), the Investor may only transfer its shares of Common Stock or Convertible Preferred Stock, in accordance with certain customary restrictions to ensure an orderly market sell-down.

Right of First Refusal

For so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), the Investor shall have the right to purchase any new Common Stock or securities convertible into Common Stock, issued by the Company, except for those issued in the ordinary course of business (e.g. issuances pursuant to the Company s compensation plans), in an amount necessary to allow the Investor to maintain the same percentage ownership of outstanding Common Stock (on an as-converted basis) as it had prior to such issuance. The Investor shall not have such a preemptive right if it intentionally breaches and does not cure within ten business days a material term of the Stockholders Agreement.

Standstill

For so long as the Investor owns at least 15% of the outstanding Common Stock (on an as-converted basis), the Investor and its affiliates shall not:

acquire, offer, agree to acquire or solicit an offer to sell, any beneficial interest in the Company, except for certain customary, de minimis exceptions (e.g., acquisitions due to stock splits or stock dividends) and pursuant to the Investor s right of first refusal;

make any public announcement or public offer with respect to any merger, business combination, tender or exchange offer, recapitalization, reorganization, restructuring, liquidation, change of control or other similar extraordinary transaction involving the Company or any acquisition of all or substantially all the assets of the Company (unless such transaction is approved or affirmatively recommended by the Board);

make, knowingly encourage or participate in any solicitation of proxies to vote, or seek to advise or influence the voting of, the Company s voting securities (except, in each case, in a manner that is consistent with the Board s recommendation);

seek (or otherwise act alone or in concert with others) to place a representative on the Board, or seek a removal of any Director, in a manner not in accordance with the nomination and voting requirements in the Stockholders Agreement;

call a meeting of stockholders of the Company or initiate any stockholder proposal;

form, join or in any way participate in a group pursuant to Section 13(d)(3) of the Exchange Act, with respect to equity securities of the Company;

act alone or in concert with others, in any way, to seek to control, advise, change or influence the management or policies of the Company;

advise or knowingly assist or encourage any discussions, negotiations, arrangements or agreements with any other person in connection with the foregoing activities;

publicly disclose plans, intentions, proposals or arrangements inconsistent with the foregoing activities;

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provide any financing for the acquisition of any securities or assets of the Company, subject to certain exceptions pertaining to debt financing for the transfer of such securities or assets to the Investor or its affiliates;

take any actions that the Investor knows or would reasonably be expected to know would require the Company to make a public announcement regarding the possibility of an acquisition;

deposit any equity securities of the Company into a voting trust; or

contest the validity of the foregoing.

Notwithstanding the foregoing, the Stockholders Agreement allows Investor to, among other things, make (i) non-public, confidential proposals to the Board for an Acquisition or (ii) if a definitive agreement with respect to an Acquisition has been publicly announced, public proposals for an alternative Acquisition. In addition, the Investor may make a public proposal for an Acquisition to acquire 100% of the outstanding shares of Common Stock in an all-cash tender offer (x) if the Company s auditors issue an opinion containing a going concern qualification with respect to a full fiscal year of the Company, (y) if the Company is in material breach (which is not waived or cured) of any financial maintenance covenant in any of its debt instruments or (z) following the eighteen month anniversary of the Closing. However, before making any such proposal, the Investor must (A) engage in good faith in confidential negotiations with the Board for at least twenty days with respect to such proposal and (B) such proposal must be expressly conditioned upon the approval of either a majority of outstanding shares of Common Stock not beneficially owned by the Investor or an authorized independent special committee of the Board.

Other Provisions

The Stockholders Agreement also provides for:

the waiver of the corporate opportunity doctrine with respect to the Investor and its affiliates, including, in certain cases, the Investor Designees;

certain customary information rights;

customary confidentiality obligations;

customary representations and warranties by the Company and the Investor; and

termination on the date on which the Investor s percentage ownership of outstanding Common Stock (on an as-converted basis) is less than 10%.

Registration Rights Agreement

In connection with the Securities Purchase Agreement, the Company will, at the Closing, enter into the Registration Rights Agreement with the Investor. The following is a summary of selected provisions of the Registration Rights Agreement.

The Investor shall have registration rights for the Underlying Shares, as well as any shares the Investor receives due to a stock split, dividend or other distribution (the Registrable Securities). After the expiration of the two-year lockup included in the Stockholders Agreement the Company is required to file a registration statement, including any prospectus, supplement, and amendments (Registration Statement), with the SEC registering the resale of the Underlying Shares, and use its reasonable best efforts to cause it to be declared effective by the SEC within thirty days if it is filed using a Form S-3, or within sixty days if the Company must initially file the Registration Statement on Form S-1.

The Investor shall have the right to deliver five written notices requiring the Company to register the requested number of Registrable Securities within thirty or sixty days, (Demand Notices) in connection with an offering,

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whether or not consummated, involving the Company s management s participation in a customary road show (a Marketed Offering). In addition, the Investor shall have the right to deliver three additional Demand Notices in connection with non-Marketed Offerings. The Investor shall not make more than four Demand Notices of any type in a 365-day period. Unless the Investor requests to have registered all of its Registrable Securities, a Demand Notice for a Marketed Offering may only be made if the sale of the Registrable Securities is reasonably expected to result in cash proceeds in excess of $25 million.

The Company shall have the right to postpone the filing or initial effectiveness of a Registration Statement twice in any twelve-month period, for an aggregate period of not more than ninety days. The Company may enact such postponement or suspension only if the registration of the applicable Registration Statement would (i) require the Company to make a disclosure of material, non-public information that the Company has a bona fide business purpose for not disclosing or (ii) materially interfere with any bona fide material financing, acquisition, disposition or other similar transaction of the Company.

If the Company proposes to file a registration statement under the Securities Act with respect to an offering of the Common Stock, other than on a Form S-4 or Form S-8 or filed to effectuate an offering and sale to employees or Directors of the Company pursuant to an employee stock plan, then the Investor may elect to have the Company register a pro rata number of its Registrable Securities in such registration.

For certain registrations of Registrable Securities, the Company, its executive officers and Directors are subject to a ninety-day lockup of sales of Common Stock and various customary restrictions for the registration procedures with the SEC. The Company shall be responsible for all expenses and fees in connection with the offering and sale of Registrable Securities, except for any underwriting discounts or commissions. The Company shall also indemnify the Investor, and its affiliates and representatives, from any and all losses, claims, damages, liabilities, costs (including reasonable attorneys fees), judgments, fines and penalties arising out of any untrue statement (or alleged untrue statement) or omission (or alleged omission) of material fact in any Registration Statement or related document incident to such registration, except for any untrue statement (or alleged untrue statement) or omission (or alleged omission) by the Investor, in which case, the Investor shall indemnify the Company, and its officers and Directors, against all losses, claims, damages, liabilities, costs (including reasonable attorneys fees), judgments, fines and penalties arising out such untrue statement (or alleged untrue statement) or omission (or alleged omission). The Investor may not assign the Registration Rights Agreement without the consent of the Company and any such assignee must execute a joinder addendum. The Registration Rights Agreement shall terminate (i) with respect to the Investor or any holder of Registrable Securities, on the date on which such person ceases to hold Registrable Securities and (ii) with respect to the Company, the earlier to occur of (x) the date on which all equity securities have ceased to be Registrable Securities or (y) the dissolution, liquidation or winding up of the Company.

China Joint Venture

Under the Securities Purchase Agreement, the Company and the Investor agreed to use reasonable best efforts to enter into definitive agreements for the Joint Venture in accordance with certain key terms that have been mutually agreed.

General

The Joint Venture would be the exclusive operator of the Company s business in China (excluding Hong Kong, Taiwan and Macau) (the Territory), including:

manufacturing and/or engaging a third party to contract manufacture vitamins, herbs, minerals, supplements and diet and sports nutrition products under the GNC brand or any other sub-brand owned by or exclusively licensed to the Company (Products) at facilities within the Territory (we refer to Products manufactured in local facilities within the Territory as Local Products);

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purchasing Products wholesale from the Company for distribution within the Territory;

purchasing Products in bulk from the Company and repackaging them at facilities within the Territory for distribution within the Territory (we refer to Products purchased from the Company under this bullet and the bullet above as Imported Products);

promoting, marketing, selling and distributing Products, whether through offline or online channels, in the Territory; and

providing after-sale and other auxiliary services within the Territory.

In connection with the foregoing, the Company and the Investor would agree to cause the Joint Venture to enter into certain agreements with the Company, including:

an exclusive, sub-licensable license to use the Company s PRC trademarks and all other trademarks owned by the Company used on the Products under a trademark license agreement (Trademark License Agreement);

an exclusive, sub-licensable license to use knowhow and other associated intellectual property rights necessary for conducting the Company s business in the Territory and the Company s provision of technical services and support to the Joint Venture regarding the manufacture of Local Products under a technical services agreement (Technical Services Agreement); and

a long-term supply agreement (the Supply Agreement), under which the Company would appoint the Joint Venture as the exclusive and sole distributor of Products in the Territory and supply the Joint Venture with Imported Products at a mutually agreed cost;

In connection with the Trademark License Agreement, the Joint Venture would pay a royalty to the Company based on the Joint Venture s sale of Products within the Territory. Under the Joint Venture Term Sheet, the parties would agree that the royalty would meet certain minimum amounts for the first five years of the Joint Venture, and a portion of those royalties would be paid upon commencement of the Joint Venture. Services rendered by the Company under the Technical Services Agreement would be provided to the Joint Venture at cost.

Under the terms of the Supply Agreement, the Company would provide the Joint Venture with terms and conditions no less favorable to the Joint Venture than those provided by the Company in certain other exclusive supply arrangements outside the United States, subject to certain exceptions. In addition, the supply agreement would be subject to certain take-or-pay obligations based on agreed upon quarterly target purchase requirements.

Exclusivity

The Company would agree that the Joint Venture has exclusive jurisdiction of business over the Territory during the term of the Joint Venture, including sales through the Company s existing Chinese online platform at www.gnc.com.cn and other online platforms in the Territory (other than www.gnc.com). Other than the revenue arising from sales

through www.gnc.com as described in the next paragraph, all revenue and income arising from orders shipped to consumers residing in the Territory or originated from consumers residing in the Territory, through whatever method (online or offline), would be considered the revenue of the Joint Venture.

For the first nine months following execution of definitive Joint Venture documentation, the Company could continue to sell Products on a passive basis to consumers based within the Territory through www.gnc.com. During such time, the Company would use commercially reasonable efforts to redirect consumers based within the Territory from www.gnc.com to www.gnc.com.cn and, if the Company is unable to redirect consumers based within the Territory, the Company would pay a royalty to the Joint Venture for any such sales to such consumers.

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Valuation and Ownership

The Company s initial contribution of its China business to the Joint Venture would be valued at approximately $50 million. Following the Investor s contribution and a simultaneous sale of a portion of the Company s initial interest in the Joint Venture to the Investor, the Joint Venture would be valued at approximately $80 million, and the Joint Venture would be held 65% by the Investor and 35% by the Company.

Term

The initial term of the Joint Venture would be 20 years, subject to extension upon approval of the Joint Venture s board.

Corporate Governance

The Joint Venture would be governed by a Board of Directors (the JV Board), consisting of a total of five directors, three of whom would be elected by the Investor and two of whom would be elected by the Company. The JV Board would act by simple majority, except that the affirmative vote of both directors elected by the Company would be required for the following transactions:

- any change of control of the Joint Venture, including any sale of a majority of the Joint Venture s equity interests or a majority of its consolidated assets;
- any public offering of the Joint Venture or any of its subsidiaries;
- significant acquisitions and dispositions by the Joint Venture;
- agreements, arrangements or understandings with either party or its affiliates, except those relating to ordinary course of business transactions with aggregate payments below a specified dollar amount or other threshold;
- business plans;
- capital calls on the parties; and
- material changes in the nature or business of the Joint Venture.

In addition to the foregoing, the Investor would have the right to nominate the Chief Executive Officer of the Joint Venture and the Company would have the right to nominate the Chief Financial Officer of the Joint Venture, in each case after consultation with the other party.

Regulatory Matters

The Investor would use commercially reasonable efforts to assist the Joint Venture with the preparation work for registration applications with the PRC Food and Drug Administration for Local Products and Imported Products. The costs and expenses associated with such applications would be borne by the Joint Venture, and any such registrations obtained would be the property of the Joint Venture.

Termination; Effect of Termination

The Joint Venture could be terminated as follows:

by mutual agreement of the Company and the Investor;

at the end of the initial 20-year term; or

by either party in the event of a material breach of the License Agreement, the Technical Services Agreement, the Supply Agreement or the definitive agreement governing the Joint Venture.

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If the Investor or the Company has a right to terminate the Joint Venture pursuant to the third bullet above, the non-breaching party would have the right to purchase the equity interests in the Joint Venture held by the breaching party.

In the event of a termination of the Joint Venture for any other reason, each party s equity interest in the joint venture would be subject to a customary buy-sell provision, whereby a party may make an offer to purchase the other party s equity interest in the Joint Venture based on a proposed valuation of the Joint Venture, and the other party could either accept the offer or elect to purchase the proposing party s equity interest in the joint venture for a price based upon the same proposed valuation of the Joint Venture.

The Trademark License Agreement would survive for so long as the Joint Venture or its successor continues operation of the Joint Venture s business in the Territory as a going concern, unless the license is terminated due to a material breach.

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DESCRIPTION OF THE CONVERTIBLE PREFERRED STOCK

The following is a summary of the material terms of the preferences, limitations, voting powers and relative rights of the Series A Convertible Preferred Stock of the Company as contained in the Certificate of Designations. While we believe that this summary covers the material terms and provisions of the Convertible Preferred Stock, we encourage you to read the Certificate of Designations carefully and in its entirety, which is included as an exhibit to our Current Report on Form 8-K filed with the SEC on February 13, 2018, and is incorporated herein by reference. For more information about accessing the information we file with the SEC, please see Where You Can Find More Information below.

Number of Shares in Series

The Certificate of Designations will designate 1,000,000 initial shares of the Convertible Preferred Stock.

Ranking

The Convertible Preferred Stock will rank senior to the Common Stock and to all other junior securities, but junior to the Company s existing indebtedness, with respect to dividends and rights on the liquidation, dissolution or winding up of the Company.

Stated Value

The Convertible Preferred Stock has a per share stated value of $1,000, subject to increase in connection with the payment of dividends in kind as described below (the Stated Value).

Dividends

Holders of shares of Convertible Preferred Stock will be entitled to receive cumulative preferential dividends, payable quarterly in arrears, at an annual rate of 6.50% of the Stated Value. Dividends are payable, at the Company s option, in cash from legally available funds or in kind by issuing additional shares of Convertible Preferred Stock with the Stated Value equal to the amount of payment being made or by increasing the Stated Value of the outstanding Convertible Preferred Stock by the amount per share of the dividend, or a combination thereof.

Conversion

Each share of Convertible Preferred Stock will be convertible at any time at the option of the holder into a number of shares of Common Stock equal to (i) the Stated Value plus any accumulated and unpaid dividends (the Liquidation Preference) divided by (ii) a conversion price of $5.35, subject to adjustment. The Conversion Price will be subject to customary antidilution adjustments.

Antidilution Adjustments

The formula for determining the conversion rate and the number of shares of Common Stock to be delivered upon conversion of the Convertible Preferred Stock will be adjusted in the event of certain dividends or distributions in shares of Common Stock or subdivisions, splits and combinations of our Common Stock, among other events. If any such event occurs, the number of shares of Common Stock issuable upon conversion may be higher or lower than the initial number of shares designated under the Certificate of Designations.

Optional Redemption

The Company has the right to redeem the Convertible Preferred Stock, in whole or in part at any time (subject to

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certain limitations on partial redemptions) following the fourth anniversary of the issue date if the last reported sale price of the Common Stock equals or exceeds 130% of the Conversion Price for each of at least twenty consecutive trading days in any thirty trading day period. The Company can make such redemption at a price per share equal to the Liquidation Preference. The Convertible Preferred Stock is perpetual and is not mandatorily redeemable at the option of the holders, except upon the occurrence of a Fundamental Change (as defined in the Certificate of Designations) as described below.

Fundamental Change

Upon the occurrence of a Fundamental Change, each holder of shares of Convertible Preferred Stock will have the option to either (i) cause the Company to redeem all of such holder s shares of Convertible Preferred Stock for cash in an amount per share equal to the Liquidation Preference, or (ii) continue to hold such holder s shares of Convertible Preferred Stock, subject to any adjustments to the Conversion Price or the number and kind of securities or other property issuable upon conversion resulting from the Fundamental Change and to the Company s or its successor s optional redemption rights described above.

A Fundamental Change is defined in the Certificate of Designations to include, subject to certain exceptions, (i) any person or group becoming a beneficial owner of more than 50% of the voting power of the Company, or if the Company consummates a transaction whereby the existing stockholders of the Company own less than 50% of the Company following such transaction, (ii) the stockholders of the Company approve a liquidation, dissolution or winding up of the Company, or (iii) the Common Stock ceases to be listed on a national securities exchange.

Liquidation Preference

Upon any liquidation, dissolution or winding up of the Company, holders of shares of Convertible Preferred Stock will be entitled to receive, prior to any distributions on the common stock or other capital stock of the Company ranking junior to the Convertible Preferred Stock, an amount in cash per share of Convertible Preferred Stock equal to the greater of (i) the Liquidation Preference and (ii) the amount such holder would receive in respect of the number of shares of Common Stock into which a share of Convertible Preferred Stock is then convertible.

Voting Rights

Holders of shares of Convertible Preferred Stock will be entitled to vote on an as-converted basis with the holders of shares of Common Stock, as a single class, on all matters submitted for a vote of holders of shares of Common Stock. When voting together with the Common Stock, each share of Convertible Preferred Stock will entitle the holder to a number of votes equal to the number of shares of Common Stock issuable upon the conversion of such Convertible Preferred Stock to which such share is entitled as of the applicable record date.

The Certificate of Designations provides that, as long as any shares of Convertible Preferred Stock are outstanding, the Company may not, without the prior affirmative vote or prior written consent of the holders of a majority of the outstanding shares of Convertible Preferred Stock, amend the Company s articles of incorporation, bylaws or other organizational documents, including the Certificate of Designations in any manner that adversely affects any rights, preferences, privileges or voting powers of the Convertible Preferred Stock or holders of shares of Convertible Preferred Stock.

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PROPOSAL THE SHARE ISSUANCE

On February 13, 2018, the Company entered into the Securities Purchase Agreement with the Investor, pursuant to which the Company agreed to issue and sell to the Investor, and the Investor agreed to purchase from the Company, 299,950 shares of newly created Convertible Preferred Stock for a purchase price of $1,000 per share, or an aggregate purchase price of approximately $300 million. The transaction is subject to customary closing conditions, as well as receipt of all necessary regulatory and governmental approvals, approval of our stockholders and entry into the Joint Venture. The Convertible Preferred Stock will be convertible into shares of the Company s Common Stock at an initial conversion price of $5.35 per share, subject to customary antidilution adjustments, and will accrue cumulative preferential dividends, payable quarterly in arrears, at an annual rate of 6.50% of the Stated Value. The terms of the Convertible Preferred Stock will be set forth in the Certificate of Designations to be filed by the Company with the Secretary of State of the State of Delaware prior to the closing of the transaction.

Our Common Stock is listed on the NYSE and we are subject to the NYSE rules and regulations. Section 312.03(c) of the NYSE Listed Company Manual requires stockholder approval prior to any issuance of common stock, or of securities convertible into common stock, in any transaction or series of related transactions if (1) the common stock to be issued has, or will have upon issuance, voting power equal to or in excess of 20% of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock, or (2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20% of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

At the closing of the Share Issuance, the Convertible Preferred Stock to be sold to the Investor will be convertible, at the option of the Investor, into 56,065,421 shares of Common Stock (subject to adjustment), which represents greater than 20% of both the voting power and number of shares of our Common Stock outstanding prior to the issuance. Because the sale of the Convertible Preferred Stock to the Investor exceeds 20% of both the voting power and number of shares of our Common Stock outstanding prior to the issuance and would implicate Section 312.03(c) and, since the NYSE rules do not define change of control, possibly 312.03(d), we must seek stockholder approval prior to making such issuance. Further, we are obligated to seek such stockholder approval pursuant to the Securities Purchase Agreement.

Certain Effects of the Share Issuance

While our Board believes that the sale of the Convertible Preferred Stock to the Investor is advisable and in the best interests of the Company and our stockholders, you should consider the following factors, together with the other information included in this proxy statement, in evaluating this proposal.

Dilution

If our stockholders approve the Share Issuance, upon the Closing, the Convertible Preferred Stock will initially be convertible into 56,065,421 shares of our Common Stock (subject to adjustment). On an as-converted basis, this would represent approximately 40% of our Common Stock outstanding. As a result, our current stockholders would experience substantial dilution of earnings per share, as well as of ownership percentage and voting rights.

Substantial Stockholder

If our stockholders approve the Share Issuance, upon the Closing, the Investor would hold approximately 40% of the outstanding voting power of the Company. As a result, the Investor will have significant voting power as well as

significant influence over our business and affairs.

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Market Price

Upon the issuance of the Convertible Preferred Stock, a substantial number of shares of our Common Stock will become issuable upon conversion thereof. This issuance could have an adverse effect on the market price of our Common Stock. Further, pursuant to the Registration Rights Agreement, we will agree to register the resale of the Underlying Shares with the SEC, which means that such shares would become eligible for resale in the public markets. Any sale of such shares, or the anticipation of the possibility of such sales, could create downward pressure on the market price of our Common Stock.

Consequences of Non-Approval of the Share Issuance

Approval of the Share Issuance is a condition to closing the transactions contemplated by the Securities Purchase Agreement. If the Share Issuance is not approved by our stockholders, the Securities Purchase Agreement may be terminated and the transactions contemplated thereby cannot be completed. See the section entitled *Description of the Transaction Documents Securities Purchase Agreement Termination of the Securities Purchase Agreement* above for more details.

Vote Required

Pursuant to the rules of the NYSE, the approval of the Share Issuance requires the affirmative vote of a majority of the shares present (in person or by proxy) and entitled to vote at the Special Meeting. This means that there must be more votes **FOR** the proposal than the aggregate of votes **AGAINST** the proposal plus abstentions at the Special Meeting.

Abstentions will be counted as votes **AGAINST** the proposal. Broker non-votes will have no effect on the outcome of this vote.

Pursuant to our Bylaws, either the Chairman of our Board or the presiding person of the Special Meeting has the power to recess and/or adjourn the meeting, for any or no reason, to another place, date and time. We intend to adjourn the Special Meeting to solicit additional proxies if there are insufficient votes at the Special Meeting to approve the Share Issuance.

Recommendation of the Board

THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE SHARE ISSUANCE.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table below sets forth information regarding the beneficial ownership of our Common Stock as of February 28, 2018 by: (i) each person, or group of affiliated persons, known by us to beneficially own more than five percent of our Common Stock; (ii) each of our named executive officers; (iii) each of our directors; and (iv) all of our directors and executive officers as a group, based on information furnished by each person.

Beneficial ownership is determined in accordance with the Exchange Act and includes voting and investment power with respect to our Common Stock. The following table includes Common Stock issuable within 60 days of February 28, 2018 upon the exercise of all options and other rights beneficially owned by the indicated stockholders on that date. Percentage of beneficial ownership is based on 83,663,403 shares of Common Stock outstanding as of February 28, 2018. Except as otherwise noted below, each person or entity named in the following table has sole voting and investment power with respect to all shares of our Common Stock that he, she or it beneficially owns.

Unless otherwise indicated, the address of each beneficial owner listed below is c/o GNC Holdings, Inc., 300 Sixth Avenue, Pittsburgh, PA 15222.

Name of Beneficial Owner	Position	Shares	Percentage (%)
Kenneth A. Martindale	Chief Executive Officer and Director	455,001 (1)	*
Tricia K. Tolivar	Chief Financial Officer and Interim Chief Marketing Officer	67,513 (2)	*
Timothy A. Mantel	Former Executive Vice President and Chief Merchandising Officer	110,308 (3)	*
Guru Ramanathan	Senior Vice President and Chief Innovation Officer	156,589 (4)	*
Gene E. Burt	Executive Vice President, Chief Merchandising Officer and Chief Supply Chain Officer	11,091 (5)	*
Michael D. Dzura	Former Executive Vice President, Operations	6,980(6)	*
Jeffrey R. Hennion	Former Chief Marketing and e-Commerce Officer	6,660(7)	*
Robert F. Moran	Director	1,019,888 (8)	1.22%
Jeffrey P. Berger	Director	96,429 (9)	*
Alan D. Feldman	Director	62,102 (10)	*
Michael F. Hines	Director	220,674 (11)	*
Amy B. Lane	Director	62,254 (12)	*
Philip E. Mallott	Director	51,837 (13)	*
Richard J. Wallace	Director	63,754 (14)	*
All directors and executive officers as a group (14 persons)		**2,298,275**	**2.75%**

* Less than 1% of the outstanding shares of Common Stock.

(1) Consists of (i) 173,186 shares directly held and (ii) 281,815 shares of time-vested restricted stock.

(2) Consists of (i) 15,066 shares directly held, (ii) 2,571 shares of time-vested restricted stock and (ii) 49,876 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.

(3) Consists of (i) 77,005 shares directly held and (ii) 33,304 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.

(4) Consists of (i) 57,567 shares directly held and (ii) 99,022 shares issuable upon exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.

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(5) Consists of (i) 2,341 shares directly held and (ii) 8,750 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.
(6) Consists of 6,980 shares directly held.
(7) Consists of 6,660 shares directly held.
(8) Consists of (i) 919,888 shares directly held and (ii) 100,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.
(9) Consists of (i) 53,664 shares directly held, (ii) 14,765 shares of time-vested restricted stock and (iii) 28,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.
(10) Consists of (i) 47,337 shares directly held and (ii) 14,765 shares of time-vested restricted stock.
(11) Consists of (i) 168,989 shares directly held, (ii) 14,765 time-vested restricted stock and (iii) 36,920 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.
(12) Consists of (i) 16,989 shares directly held, (ii) 14,765 time-vested restricted stock and (iii) 30,500 shares issuable upon the exercise of options that are currently exercisable or become exercisable within 60 days following February 28, 2018.
(13) Consists of (i) 37,072 shares directly held and (ii) 14,765 shares of time-vested restricted stock.
(14) Consists of (i) 13,989 shares directly held, (ii) 14,765 shares of time-vested restricted stock and (iii) 35,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days following February 28, 2018.

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STOCKHOLDER PROPOSALS FOR FUTURE ANNUAL MEETINGS

Stockholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act for our 2018 Annual Meeting must have been received by us no later than December 12, 2017 to be presented at the 2018 Annual Meeting or to be eligible for inclusion in the proxy materials related thereto under the SEC s proxy rules. Stockholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act for our 2019 Annual Meeting must be received by us no later than December 11, 2018 to be presented at the 2019 Annual Meeting or to be eligible for inclusion in the proxy materials related thereto under the SEC s proxy rules. Such proposals can be sent to us at GNC Holdings, Inc., 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, Attention: Secretary.

Our Bylaws prescribe the procedures that a record stockholder must follow to nominate directors for election at an Annual Meeting or to bring other business before an Annual Meeting (other than matters submitted pursuant to Rule 14a-8 under the Exchange Act). The following summary of these procedures is qualified by reference to our Bylaws, a copy of which can be obtained, without charge, upon written request to GNC Holdings, Inc., 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, Attention: Secretary.

Pursuant to Article II, Section 5(b) of our Bylaws, a record stockholder must provide timely notice of any stockholder proposal (including director nomination(s)) other than those submitted pursuant to Rule 14a-8 of the Exchange Act to be properly brought before an Annual Meeting. To be timely, such notice must have been received by February 22, 2018 for our 2018 Annual Meeting, or must be received by February 21, 2019 for our 2019 Annual Meeting, in each case by our secretary at our principal executive offices at 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222. The notice must contain the information specified in our Bylaws regarding the stockholder giving the notice and the business proposed to be brought before the meeting. For director nominations, the notice must also contain the information specified in our Bylaws regarding each person whom the stockholder wishes to nominate for election as director and be accompanied by the written consent of each proposed nominee to serve as director if elected. Such stockholder proposals must also be in compliance with the additional requirements set forth in the Bylaws.

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WHERE YOU CAN FIND MORE INFORMATION

The SEC allows us to incorporate by reference into this proxy statement documents we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this proxy statement, and later information that we file with the SEC as specified below will update and supersede this information. Except to the extent that information is deemed furnished and not filed pursuant to securities laws and regulations, we hereby incorporate by reference the following filings:

- Our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 1, 2018;
- Our Proxy Statement on Schedule 14A, filed with the SEC on April 11, 2017;
- Our Current Reports on Form 8-K filed with the SEC on February 13, 2018 (Item 1.01, 2.03, 3.02, 5.02 and 8.01 disclosures only), February 14, 2018, February 23, 2018, and February 28, 2018; and
- Any documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement and before the date of the Special Meeting.

This proxy statement incorporates important business and financial information about the Company from other documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this proxy statement through our website, www.gnc.com, or from the SEC at its website, www.sec.gov, or upon request to GNC Holdings, Inc., 300 Sixth Avenue, Pittsburgh, Pennsylvania, 15222, Attention: Secretary. Stockholders may also read and copy materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549.

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HOUSEHOLDING

The SEC permits companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy materials with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies. Stockholders who hold their shares through a nominee, such as a broker, bank, broker-dealer or similar organization may receive notice from that nominee regarding the householding of proxy materials. As indicated in the notice, a single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from an affected stockholder. Once a stockholder has received notice that a nominee will be householding, householding will continue until the stockholder is notified otherwise or until the stockholder has revoked consent by notifying the nominee. If you hold your shares in street name and would prefer to receive separate copies of a proxy statement for other stockholders in your household, either now or in the future, please contact your nominee. If you are record holder of your shares and would prefer to receive separate copies of a proxy statement for other stockholders in your household, either now or in the future, please contact: GNC Holdings, Inc., 300 Sixth Avenue, Pittsburgh, Pennsylvania 15222, Attention: Secretary. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request householding of their communications should contact their broker or the Company, as applicable.

OTHER MATTERS

Pursuant to our Bylaws, only such business as is specified in this proxy statement will be conducted at the Special Meeting.

By Order of the Board of Directors

[ ]

Kenneth A. Martindale
Chief Executive Officer

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Annex I

February 12, 2018

GNC Holdings, Inc.

300 Sixth Avenue

Pittsburgh, Pennsylvania 15222

Ladies and Gentlemen:

GNC Holdings, Inc. (GNC or the Company) has engaged Valuation Research Corporation (VRC) as independent financial advisor to provide certain valuation advisory services to GNC s Board of Directors (the Board) with respect to a potential transaction in which the Company will sell to prospective investors on or about the date hereof preferred shares of the Company (the Convertible Preferred Shares) that are convertible into common shares of the Company (the Common Shares) at a conversion price of $5.35 per Common Share (the Conversion Price). On a primary share basis, the Convertible Preferred Shares will be convertible into approximately 40.2% of the Company s outstanding Common Shares. The Company s sale of Convertible Preferred Shares and all related sources and uses of funds, collectively, are referred to herein as the Transaction.

In connection with the Transaction, the Company has requested that VRC render to the Board this opinion letter (the Fairness Opinion) expressing VRC s view as to whether the Conversion Price of the Convertible Preferred Shares in the Transaction is fair from a financial point of view to the Company.

The Fairness Opinion does not address (i) the fairness of the Transaction, in whole or in part, or any terms associated therewith, in each case to the Company s or any other person s or entity s creditors or other parties not expressly addressed in the Fairness Opinion; (ii) the relative risks or merits of the Transaction, or any other business strategies or transactional alternatives that may be available to the Company or any other person or entity; (iii) the underlying business decisions of the Company or any other person or entity to enter into or consummate the Transaction; (iv) any specific legal, tax, accounting, or financial reporting matters related to or associated with the Transaction; (v) the fair value of the Transaction in each case under any state, federal, or international laws relating to appraisal rights or similar matters; (vi) the book value of the assets and liabilities of, or otherwise associated with or comprising, the Company; (vii) the projections provided by the Company or the Company s management for periods before or after the consummation of the Transaction; (viii) any employment or other agreements entered into in connection with the Transaction; or (ix) any matters relating to fees paid by the Company or any other person or entity in connection with the Transaction.

In rendering the Fairness Opinion, VRC conducted only such reviews, analyses, and inquiries, and considered such information, data and other material as are, in VRC s judgement, customary for evaluation of transactions similar to the Transaction and otherwise for engagements of this type and necessary and appropriate based on the facts and circumstances of the Transaction and the engagement. In conducting its reviews and analyses, and as a basis for arriving at the opinion expressed herein, VRC utilized methodologies, procedures and considerations it deemed relevant and customary under the circumstances; and took into account its assessment of general economic, industry, market, financial and other conditions, which may or may not prove to be accurate, as well as its experience as a

valuation financial advisor in general. Further, in rendering the Fairness Opinion, VRC did not conduct any due diligence whatsoever on the prospective investors or participants in the Transaction or the purchasers of any securities or interests involved in the Transaction.

Without limiting the generality of the foregoing, we have reviewed, among other things, the form of Securities Purchase Agreement to be entered into by and among the Company and the prospective investor, together with

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the other documents related to the Transaction and referred to therein; annual reports to stockholders and Annual Reports on Form 10-K of the Company for the five fiscal years ended December 31, 2011 and December 31, 2016 respectively; certain interim reports to stockholders and Quarterly Reports on Form 10-Q of the Company; certain other communications from the Company to their respective stockholders; certain publicly available research analyst reports for the Company; certain internal financial analyses and forecasts for the Company for the four full years ended 2021, both stand-alone and pro forma for the Transaction, prepared by Company management and approved for our use by the Company and the Board (collectively, the Forecasts); the reported price and trading activity for the Common Shares; and the financial terms of certain recent business combinations in the same industry as the Company and in other industries. We have also held discussions with members of the senior management of the Company regarding their assessment of the past and current business operations, financial condition and future prospects of the Company and the strategic rationale for, and the potential benefits to the Company of, the Transaction; compared certain financial and stock market information for the Company with similar information for certain other companies the securities of which are publicly traded, including a review of the current and historical market prices and trading volume for the Company s publicly traded securities, and the historical market prices and certain financial data of publicly traded securities of certain other companies that we deemed to be relevant; and performed such other financial studies, inquiries and analyses, and considered such other factors and information, as we deemed appropriate.

With your permission, VRC assumed and relied upon, without independent verification or independent appraisal, the accuracy and completeness of all information provided to VRC by or on behalf of the Company or the Board (collectively, Information), and all other information, data and other material (including, without limitation, financial forecasts and projections) furnished or otherwise made available to, or discussed with or reviewed by, VRC in connection with the Fairness Opinion, or that was publicly available.

In addition, VRC assumed and relied upon the assumption, without independent verification, that any financial forecasts and projections provided to VRC by or on behalf of the Board or the Company in connection with the Fairness Opinion have been reasonably and prudently prepared in good faith and were based upon assumptions that are reasonable and reflect the best then currently available estimates and judgments of the Company s management as to the matters covered thereby. VRC further assumed that any Information provided by or on behalf of the Board or the Company in connection with the Fairness Opinion did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances under which such statements were made.

With your permission, VRC assumed, without independent verification, (i) the accuracy and adequacy of the legal advice given by counsel to the Board or the Company on all legal matters with respect to the Transaction; (ii) that all procedures required by law to be taken in connection with the Transaction have been, or will be, duly, validly and timely taken and that the Transaction will be consummated in a manner that complies with all applicable laws and regulations and that conforms in all material respects to the description thereof set forth herein; (iii) that the Transaction is consummated in a timely manner in accordance with the terms and conditions set forth in the related definitive agreements and other documents provided to VRC; (iv) that each of the Board and the Company is in compliance in all material respects (and will remain in compliance in all material respects) with any and all applicable laws, rules or regulations of any and all relevant legal or regulatory authorities; and (v) that the Transaction will be consummated in a manner that complies in all material respects with any and all applicable laws, rules and regulations of any and all legal or regulatory authorities.

VRC did not make any independent evaluation of the Company s (or any other party s) solvency or creditworthiness nor did we make any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (contingent or otherwise) of the Company or any other party. VRC does not express herein any opinion

regarding the liquidation value of any entity or business. In addition, VRC did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities to which the Company is or may be a party or of which it may be the subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company is or may be a party or otherwise may be subject.

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VRC relied upon and assumed, without independent verification, that, other than as expressly disclosed to VRC in writing by the Board or the Company, there was no material change in the assets, liabilities, financial condition, results of operations, business or prospects of the Company between the date of the most recent financial statements of or relating to the Company provided to VRC by or on behalf the Board or the Company in connection with the Fairness Opinion and the date of the Fairness Opinion; and that there are no facts or other information that would make any of the information (including, without limitation, the Information) reviewed by VRC incomplete or misleading. VRC further assumed that there will be no subsequent events that would materially affect the views set forth in the Fairness Opinion.

The Fairness Opinion is not intended to constitute a recommendation to the Board, the Company or any other party as to how they should vote, approve, disapprove, or act with respect to any matters relating to the Transaction. The Fairness Opinion does not represent an assurance, warranty, or guarantee that the price to be paid in the Transaction is the highest or best amount that can be obtained in connection with the Transaction or any other transaction.

VRC did not initiate any discussions, or solicit any indications of interest, with any third parties with respect to the Company or the Transaction. The Fairness Opinion speaks only as of the date thereof and addresses only the Transaction, and does not speak to or address any period thereafter or any subsequent business transaction, acquisition, dividend, share repurchase, debt or equity financing, recapitalization, restructuring or other actions, transactions or events not specifically referred to in the Fairness Opinion. Furthermore, the Fairness Opinion does not represent an assurance, guarantee, or warranty that the Company will not breach, or default on or under, any of its debt or other obligations or liabilities, nor does VRC make any assurance, guarantee, or warranty that any covenants, financial or otherwise, associated with any financing or existing indebtedness will not be breached in the future.

The Fairness Opinion is necessarily based on economic, industry, market, financial and other conditions and circumstances as they exist and to the extent that they can be evaluated by VRC as of the date hereof. VRC assumes no responsibility to update or revise the Fairness Opinion based upon any events or circumstances occurring subsequent to the date hereof.

VRC is continually engaged in performing financial analyses with respect to businesses and their securities in connection with mergers and acquisitions and other transactions for corporate and other purposes. Except for our engagement in connection with the Fairness Opinion, we have not acted as financial advisor to the Company in connection with the Company s consideration of the Transaction and have not participated in the negotiations leading to the Transaction. We will receive a fee in connection with the delivery of this opinion. and the Company has agreed to reimburse certain of our expenses and indemnify us against certain liabilities arising out of our engagement. No portion of our fee is contingent upon either the conclusion expressed in this Opinion or whether or not the Transaction is successfully consummated. We may provide valuation advisory services to the Company in the future, in connection with which we may receive compensation. From time to time, we and our affiliates have in the past provided services to the Company unrelated to the proposed Transaction, including valuation services for the Company for financial reporting purposes.

The Fairness Opinion is intended solely for the benefit, use, and reliance of the Board in connection with the Transaction, and may not be publicly disclosed without the express written consent of VRC.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Conversion Price of the Convertible Preferred Stock in the Transaction is fair from a financial point of view to Company.

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This Fairness Opinion has been approved by the opinion review committee of VRC.

Respectfully submitted,

VALUATION RESEARCH CORPORATION

Engagement# 18377