

HEALTHWAYS, INC  
Form DEF 14A  
December 31, 2007

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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 §240.14a-12

**HEALTHWAYS, INC.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**3841 Green Hills Village Drive  
Nashville, Tennessee 37215**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Stockholders of Healthways, Inc.:

The Annual Meeting of Stockholders of Healthways, Inc., a Delaware corporation (the Company), will be held at the Loews Vanderbilt Hotel, 2100 West End Avenue, Nashville, Tennessee, 37203 at 9:00 a.m., local time, on Thursday, February 14, 2008 for the following purposes:

- (1) To elect three (3) directors to hold office for a term of three (3) years or until their successors have been elected and qualified;
- (2) To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2008;
- (3) To consider and act upon a proposal to amend the Company's Restated Certificate of Incorporation, as amended, (the Certificate of Incorporation), to increase the number of authorized shares of the Company's common stock, par value \$.001 per share (the Common Stock) from 75,000,000 to 120,000,000; and
- (4) To transact such other business as may properly come before the meeting, or any adjournment or postponement thereof.

The proxy statement and form of proxy accompanying this notice are being mailed to stockholders on or about December 31, 2007. Only stockholders of record at the close of business on December 17, 2007 are entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

Your attention is directed to the proxy statement accompanying this notice for a more complete statement regarding the matters to be acted upon at the meeting.

We hope very much that you will be able to attend the meeting. If you do not plan to attend the meeting in person, you are requested to complete, sign and date the enclosed proxy and return it promptly in the enclosed addressed envelope, which requires no postage if mailed in the United States, or to vote by toll-free telephone or internet as described in the enclosed proxy card.

By Order of the Board of Directors,

Thomas G. Cigarran  
Chairman

December 31, 2007

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**Healthways, Inc.  
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**HEALTHWAYS, INC.  
3841 Green Hills Village Drive  
Nashville, Tennessee 37215**

**PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS**

**Thursday, February 14, 2008**

The enclosed proxy is solicited by the Board of Directors on behalf of Healthways, Inc. for use at the Annual Meeting of Stockholders to be held on Thursday, February 14, 2008, at 9:00 a.m., local time, at the Loews Vanderbilt Hotel, 2100 West End Avenue, Nashville, Tennessee, 37203, and at all adjournments or postponements thereof, for the purposes set forth in the foregoing Notice of Annual Meeting of Stockholders. Our Annual Report containing our audited financial statements for the fiscal year ended August 31, 2007 is being mailed together with this Proxy Statement to all stockholders entitled to vote. Copies of the proxy, this proxy statement and the attached notice are being sent to stockholders on or about December 31, 2007.

In addition to solicitations by mail, certain of our directors, officers and employees, without additional remuneration, may solicit proxies by telephone, facsimile, email and personal interviews, but may reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to beneficial owners. We will bear all costs of this solicitation, including expenses in connection with preparing, assembling and mailing this proxy statement.

In the election of directors, you may vote **FOR** all of the nominees or your vote may be to **WITHHOLD AUTHORITY** with respect to one or more of the nominees. For the ratification of the selection of Ernst & Young LLP and the amendment to the Company's Certificate of Incorporation, you may vote **FOR**, **AGAINST** or **ABSTAIN**. If you **ABSTAIN**, it has the same effect as a vote **AGAINST**. Shares represented by such proxies will be voted in accordance with the choices specified thereon. If you sign your proxy card without giving specific voting instructions, the shares represented by such proxies will be voted **FOR** the election of the director nominees set forth under Proposal No. 1, **FOR** the ratification of Ernst & Young LLP as the independent registered public accounting firm for fiscal 2008 set forth under Proposal No. 2, and **FOR** the amendment to the Certificate of Incorporation set forth under Proposal No. 3. The Board of Directors does not know of any other matters which will be presented for action at the meeting, but the persons named in the proxy intend to vote or act with respect to any other proposal which may be properly presented for action according to their best judgment in light of the conditions then prevailing.

The quorum requirement for holding the Annual Meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum.

Votes are counted by our transfer agent. In the election for directors, the three persons receiving the highest number of **FOR** votes will be elected. The proposal to ratify the selection of the auditors requires the affirmative **FOR** vote of a majority of those shares present and entitled to vote. The proposal to amend the Certificate of Incorporation to increase the authorized shares of Common Stock requires the affirmative **FOR** vote of a majority of the outstanding shares entitled to be cast on such matter. If you are a beneficial owner and do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes.

Generally, broker non-votes occur when shares held by a broker in street name for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote those shares. A broker is entitled to vote



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shares held for a beneficial owner on routine matters, such as the election of the Company's directors and the ratification of the appointment of Ernst & Young LLP as independent auditors, without instructions from the beneficial owner of those shares. On the other hand, a broker may not be entitled to vote shares held for a beneficial owner on certain non-routine items, absent instructions from the beneficial owner of such shares. Broker non-votes count for purposes of determining whether a quorum exists but do not count as entitled to vote with respect to individual proposals. For proposals requiring the affirmative vote of those shares present and entitled to vote, such as Proposal No. 2, broker non-votes will not affect the outcome of the vote. With respect to Proposal No. 3, a broker non-vote will have the same effect as a vote against such matter.

A proxy may be revoked by a stockholder at any time before its exercise by attending the meeting and electing to vote in person, by filing with the Secretary of the Company a written revocation, by duly executing a proxy bearing a later date or by casting a new vote by toll-free telephone or the internet.

Each share of our common stock, \$.001 par value (the Common Stock), issued and outstanding on the record date, December 17, 2007, will be entitled to one vote on all matters to come before the meeting. Cumulative voting is not permitted. As of December 17, 2007, there were outstanding 35,927,925 shares of Common Stock.



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

The following table sets forth certain information with respect to those persons that we know to be the beneficial owners (as defined by certain rules of the Securities and Exchange Commission (the Commission)) of more than five percent (5%) of our Common Stock, our only voting security, and with respect to the beneficial ownership of our Common Stock by all directors and nominees, each of the executive officers named in the Summary Compensation Table and all of our executive officers and directors as a group. The information set forth below is based on ownership information we received as of December 17, 2007. Unless specified otherwise, the shares indicated are presently outstanding, and each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
William Blair & Company LLC 222 W. Adams Chicago, IL 60606	4,508,336(2)	12.55%
FMR Corp. 82 Devonshire Street Boston, MA 02109	3,514,586(2)	9.78%
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, UT 84111	3,431,588(2)	9.55%
Earnest Partners LLC 1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	2,580,173(2)	7.18%
Waddell & Reed Financial, Inc. 6300 Lamar Avenue Overland Park, KS 66202	2,278,214(2)	6.34%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,128,741(2)	5.93%
Bamco, Inc. 767 Fifth Avenue New York, NY 10153	1,823,700(2)	5.08%
Ben R. Leedle, Jr.****	753,289(3)	2.05%
Thomas G. Cigarran**	625,469(4)	1.73%
Henry D. Herr**	330,858(5)	*
Robert E. Stone***	311,689(6)	*
William C. O Neil, Jr.**	259,272(7)	*
Mary A. Chaput***	238,447(8)	*
L. Ben Lytle**	121,544(9)	*
James E. Pope, M.D.***	100,483(10)	*
C. Warren Neel, Ph. D.**	72,230(7)	*

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Donald B. Taylor***	70,880(11)	*
John W. Ballantine**	50,000(12)	*
Jay C. Bisgard, M.D.**	45,000(13)	*
Mary Jane England, M.D.**	20,000(14)	*

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<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership(1)</b>	<b>Percent of Class(1)</b>
Alison Taunton-Rigby, Ph. D.**	15,000(15)	*
John A. Wickens**	600(16)	*
All directors and executive officers as a group (19 persons)	3,080,431(17)	8.16%

\* Indicates ownership of less than one percent of our outstanding Common Stock.

\*\* Director of the Company

\*\*\* Named Executive Officer

\*\*\*\* Director and Named Executive Officer

(1) Pursuant to the rules of the Commission, certain shares of our Common Stock which an individual owner set forth in this table has a right to acquire within 60 days after the record date hereof pursuant to the exercise of stock options or other securities are deemed to be outstanding for the purpose of computing the ownership of that owner, but are not deemed outstanding for the purpose of computing the ownership of any other individual owner shown in the table. Likewise, the shares subject to options or other securities held by our other directors and executive officers which are exercisable within 60 days of the record date hereof, are all deemed outstanding for the purpose of computing the percentage ownership of all executive officers and directors as a group.

(2) Information with respect to stock ownership is based upon a Form 13F, dated September 30, 2007 filed with the Commission.

(3) Includes 751,063 shares issuable upon the exercise of outstanding options.

(4) Includes 300,646 shares issuable upon the exercise of outstanding options.

(5) Includes 18,491 shares held in trust and 4,606 shares held in trust by Mr. Herr's wife.

(6) Includes 157,502 shares issuable upon the exercise of outstanding options.

(7) Includes 25,000 shares issuable upon the exercise of outstanding options.

(8) Includes 230,000 shares issuable upon the exercise of outstanding options.

(9) Includes 76,585 held in trust and 46,720 held in escrow.

(10) Includes 100,000 shares issuable upon the exercise of outstanding options.

(11)

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Includes 7,080 shares owned by Mr. Taylor's wife, 920 shares held in trust, and 62,500 shares issuable upon the exercise of outstanding options.

(12) Includes 10,000 shares held in trust and 40,000 shares issuable upon the exercise of outstanding options.

(13) Includes 5,000 shares held in trust and 40,000 shares issuable upon the exercise of outstanding options.

(14) Includes 20,000 shares issuable upon the exercise of outstanding options.

(15) Includes 15,000 shares issuable upon the exercise of outstanding options.

(16) Includes 600 shares held jointly by Mr. Wickens and his wife.

(17) Includes 1,826,461 shares issuable upon the exercise of outstanding options.

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**CORPORATE GOVERNANCE**

**Board of Directors Information**

Our Board of Directors held nine meetings during fiscal 2007. All of the members of the Board of Directors, except Messrs. Cigarran, Herr, Leedle, and Lytle are independent, as defined by applicable law and the NASDAQ Stock Market (NASDAQ) listing standards, including Frank Ehmann, who retired from the Board of Directors on February 2, 2007. The Board of Directors has a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee.

Each of our incumbent directors attended at least 75% of the aggregate of the total number of meetings held during fiscal 2007 by the Board of Directors and each committee of which such director was a member for the entire fiscal year.

**Committees of the Board of Directors**

***Compensation Committee***

During fiscal 2007, the Compensation Committee consisted of Mr. Ballantine and Drs. Bisgard, England, Neel and Taunton-Rigby and was chaired by Dr. Bisgard. As discussed in Compensation Discussion and Analysis, all of the directors on the Compensation Committee are non-employee directors as defined in Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934, as amended, outside directors for purposes of regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and independent directors as defined in the NASDAQ corporate governance listing standards, in each case as determined by our Board of Directors. The Compensation Committee is responsible for overseeing our overall compensation strategies and policies, evaluating the performance of our executive officers and recommending to the independent directors the compensation of each of our executive officers and administering our equity-based incentive plans, among other things. The Compensation Committee's Charter, which is reviewed annually by the Compensation Committee and is available on our website at [www.healthways.com](http://www.healthways.com), provides a detailed description of its duties and responsibilities. The Compensation Committee held seven meetings during fiscal 2007.

***Nominating and Corporate Governance Committee***

During fiscal 2007, the Nominating and Corporate Governance Committee consisted of Messrs. O Neil and Wickens and Drs. England and Taunton-Rigby and was chaired by Dr. England. Mr. Wickens was appointed to the committee in February 2007 in connection with his appointment to the Board of Directors. All of the directors on the Nominating and Corporate Governance Committee are independent directors as defined under applicable law and NASDAQ listing standards. The Nominating and Corporate Governance Committee's responsibilities include identifying individuals qualified to become members of the Board of Directors and recommending such individuals to the Board of Directors for election to the Board of Directors and developing and recommending to the Board of Directors corporate governance principles applicable to the Company. The Nominating and Corporate Governance Committee Charter, which is reviewed annually by the Nominating and Corporate Governance Committee and is available on the Company's website at [www.healthways.com](http://www.healthways.com), provides a detailed description of the Nominating and Corporate Governance Committee's responsibilities and sets forth the director nomination process. The Nominating and Corporate Governance Committee held five meetings during fiscal 2007.

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### ***Audit Committee***

During fiscal 2007, the Audit Committee consisted of Messrs. O Neil and Ballantine and Drs. Bisgard and Neel, each of whom is independent as defined by applicable law and the NASDAQ listing standards, and was chaired by Mr. Ballantine. We have, and will continue to have, at least one member of the Audit Committee who has past employment experience in finance or accounting and requisite professional certification in accounting or other comparable experience which results in the individual's financial sophistication. The Audit Committee meets with our independent registered public accounting firm and management to review our consolidated financial statements, the quality and integrity of our accounting, auditing and financial reporting process, and our systems of internal controls. The Board of Directors has determined that each member of the Audit Committee qualifies as an audit committee financial expert, as defined by the regulations of the Commission. The Audit Committee held eleven meetings during fiscal 2007. The Audit Committee has adopted a Charter that provides a detailed description of its responsibilities, which is reviewed annually by the Audit Committee and is available on our website at [www.healthways.com](http://www.healthways.com).

### **Corporate Governance Guidelines**

The Board of Directors has adopted Corporate Governance Guidelines to assist the Board of Directors in the exercise of its duties and responsibilities and to serve the best interests of the Company and its stockholders. These Corporate Governance Guidelines, which are available on our website at [www.healthways.com](http://www.healthways.com), provide a framework for the conduct of the business of the Board of Directors.

### **Code of Conduct**

We have a code of conduct that applies to all colleagues (including officers) and directors. The purpose of the code is to provide written standards that are reasonably designed to promote: honest and ethical conduct; full, fair, accurate, timely and understandable disclosure in reports and documents we file with the Commission and other public communications we make; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the code; and accountability for adherence to the code, and to deter wrongdoing. A copy of our code of conduct, as well as any amendments thereto, can be obtained from our website at [www.healthways.com](http://www.healthways.com).

### **Stockholder Nominees**

The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder nominations for director candidates as described below under Identifying and Evaluating Nominees for Directors. Any stockholder nominations proposed for consideration by the Nominating and Corporate Governance Committee should be addressed to: Secretary, Healthways, Inc., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. To be timely, director nominations for the 2008 Annual Meeting of Stockholders must be submitted within the time limits for stockholder proposals as set forth on page 51 of this Proxy Statement.

### **Director Qualifications**

Under our Board of Directors Corporate Governance Guidelines and the Nominating and Corporate Governance Committee Charter, the Nominating and Corporate Governance Committee is responsible for determining the criteria for membership on our Board of Directors. Under such criteria, at least a majority of the members of the Board of Directors should be independent, and all members should have the highest professional and personal ethics and values consistent with our values and standards. Other criteria that will be considered are



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prior experience as a director, knowledge of our business and industry and broad experience at the operational, financial or policy making level in business. Diversity, age and skills in the context of the needs of the Board of Directors are also a consideration. The members should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. As such, in order to be active participants and perform all director duties responsibly, directors' service on other boards of public companies is limited to three public boards (excluding the Company).

### **Identifying and Evaluating Nominees for Directors**

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board of Directors, and whether any vacancies on the Board of Directors are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board of Directors members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee and may be considered at any point during the year. As described above, the Nominating and Corporate Governance Committee considers properly submitted stockholder nominations for candidates for the Board of Directors. In evaluating nominations, the Nominating and Corporate Governance Committee uses the same criteria for all nominees, and the Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and expertise on the Board of Directors.

There are no nominees for election to the Board of Directors who have not previously been elected by the stockholders.

### **Directors' Attendance at Annual Meetings of Stockholders**

Although directors are invited and are always encouraged to attend the annual stockholder meetings, we do not require their attendance. All of the directors attended the 2007 Annual Meeting of Stockholders held on February 2, 2007.

### **Communications With the Board of Directors**

Stockholders may communicate with the Board of Directors by submitting a letter in writing addressed to: Chairman of the Board of Directors, Healthways, Inc., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. If the communication relates to the Company's ethics or conduct, financial statements, accounting practices or internal controls, the communication may be submitted in writing addressed to: Audit Committee Chairman, Healthways, Inc., 3841 Green Hills Village Drive, Nashville, Tennessee 37215. Stockholder communications may be submitted confidentially or anonymously.

### **Stock Retention Guidelines**

To further align officers' interests with stockholders' interests, in August 2005, our Board of Directors adopted stock retention guidelines for officers. As amended, the guidelines require officers to maintain a minimum ownership in the Company's stock based on a multiple of their base salary (at least 2.5 times base salary for executive officers and 4 times base salary for the Chief Executive Officer). Officers must retain 75% of the net number of shares acquired (after payment of exercise price, if any, and taxes) upon the exercise of stock options and



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vesting of restricted stock units granted on or after August 24, 2005 until they reach the required multiple of base salary. Officers who do not comply with the guidelines may not be eligible for future equity awards.

In addition, in August 2005, the Board of Directors adopted stock ownership guidelines that require directors to retain at least 75% of the net number of shares acquired (after payment of exercise price, if any, and taxes) upon exercise of stock options and vesting of restricted stock awards granted in and after August 2005 until the required minimum ownership is achieved.

## **Evaluations of Board and Committee Performance**

Each year the Nominating and Corporate Governance Committee of our Board of Directors conducts an evaluation process focusing on the effectiveness of the Board of Directors as a whole, the performance of each committee of the Board of Directors and the performance of each individual Board member. The manner of the evaluation is determined annually by the Nominating and Corporate Governance Committee in order to ensure the procurement of accurate and relevant information. The evaluation process is designed to facilitate ongoing, systematic examination of the Board of Directors, each committee's effectiveness and accountability, and each individual's performance, and to identify opportunities for improvement. The Nominating and Corporate Governance Committee designed and coordinated the Board of Directors, committee, and individual director evaluations, and the Chair of the Nominating and Corporate Governance Committee reported the results to each committee, the full Board of Directors, and each individual director.

## **Certain Relationships and Related Transactions**

Since the beginning of the last fiscal year, we are aware of the following related party transactions between us and our directors, executive officers, 5% stockholders or their family members which require disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934.

Ed Cooper, son-in-law of William C. O'Neil Jr., an Outside Director (as defined herein), was a non-management partner in a partnership that owns the building in which our primary corporate office is located. We made rental payments of approximately \$1,830,000 to the partnership in fiscal 2007. We have entered into a lease agreement for a new corporate headquarters which we expect to occupy beginning in March 2008 and do not expect to make payments to this partnership after that time.

Christopher Cigarran, son of Chairman Thomas G. Cigarran, worked for the Company as Senior Vice President of Human Resources and Organizational Development, receiving aggregate cash compensation of approximately \$292,000 during fiscal 2007 and equity awards commensurate with our other senior vice presidents.

Robert L. Chaput, our Chief Information Officer and Executive Vice President, is the spouse of Mary A. Chaput, our Chief Financial Officer and Executive Vice President. Mr. Chaput and Ms. Chaput received aggregate cash compensation of approximately \$514,000 and \$616,000 during fiscal 2007, respectively. Mr. Chaput and Ms. Chaput also receive equity awards commensurate with our other executive vice presidents.

Hugh Lytle, son of Director L. Ben Lytle, began working as a Senior Vice President for the Company on December 1, 2006 but was no longer employed by the Company as of August 31, 2007. During fiscal 2007, Hugh Lytle received aggregate cash compensation of approximately \$389,000. Prior to Healthways, Hugh Lytle served as President of Axia Health Management, LLC (Axia), which we acquired on December 1, 2006.



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Pursuant to its written charter, the Audit Committee reviews and either ratifies, approves or disapproves all Interested Transactions, which are generally defined to include any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which:

the aggregate amount involved exceeded, or will or may be expected to exceed, \$120,000 in any calendar year;

the Company was, is or will be a participant; and

any Related Party had, has or will have a direct or indirect interest.

For purposes of the policy, a Related Party is any:

person who is or was (since the beginning of the last fiscal year for which the Company has filed a Form 10-K and proxy statement, even if they do not presently serve in that role) an executive officer, director or nominee for election as a director;

greater than 5% beneficial owner of the Company's common stock;

immediate family member of any of the foregoing; or

firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner, managing member or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

In determining whether to approve or ratify an Interested Transaction under the policy, the Audit Committee considers the relevant information and facts available to it regarding the Interested Transaction and takes into account factors such as the Related Party's relationship to the Company and interest (direct or indirect) in the transaction, the terms of the transaction and the benefits to the Company of the transaction. No director participates in the approval of an Interested Transaction for which he or she is a Related Party or otherwise has a direct or indirect interest.

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Our Certificate of Incorporation provides for a staggered Board of Directors. Each director serves a three-year term or until his/her successor is elected and qualified. The directors to be elected at the 2008 Annual Meeting of Stockholders will serve until the Annual Meeting of Stockholders in 2011 (the Class II directors). Four directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2009 (the Class III directors), and four directors currently serving on the Board of Directors will continue to serve until the Annual Meeting of Stockholders in 2010 (the Class I directors).

Unless contrary instructions are received, shares of our Common Stock represented by duly executed proxies will be voted in favor of the election of the nominees named below. If for any reason a nominee is unable to serve as a director, it is intended that the proxies solicited hereby will be voted for such substitute nominee as our Board of Directors may propose. The Board of Directors has no reason to expect that the nominees will be unable to serve, and therefore, at this time does not have any substitute nominees under consideration.

A nominee for election must receive a plurality of the votes cast to be elected as a director. Stockholders have no right to vote cumulatively for directors, but rather each stockholder shall have one vote for each share of Common Stock held by such stockholder for each director.

The following persons are the nominees for election to serve as Class II directors. All nominees are presently directors of the Company and were previously elected by the stockholders. Certain information relating to the nominees, which the individuals named have furnished to us, is set forth below. **The Board of Directors recommends a vote FOR each nominee.**

<b>Name of Director</b>	<b>Class of Director; Annual Meeting at Which Term Will Expire</b>	<b>Background Information</b>
Thomas G. Cigarran	II; 2011	Mr. Cigarran, 66, has served as Chairman of the Company since August 1988 and as a director since 1981. Mr. Cigarran served as Chief Executive Officer of the Company from August 1988 to September 2003. Mr. Cigarran served as President of the Company from September 1981 to June 2001. Mr. Cigarran also serves as chairman of the Board of Directors of AmSurg Corp.
C. Warren Neel, Ph. D.	II; 2011	Dr. Neel, 69, has been a director of the Company since October 1991. Dr. Neel is currently Executive Director of the Center for Corporate Governance at the University of Tennessee. He served as the Commissioner of Finance and Administration for the State of Tennessee from July 2000 until February 2003. He served as Dean of the College of Business Administration at The University of Tennessee in Knoxville from 1977 to 2002. Dr. Neel is also a director of Saks, Inc. where he serves as Chair of the Audit Committee.



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<b>Name of Director</b>	<b>Class of Director; Annual Meeting at Which Term Will Expire</b>	<b>Background Information</b>
John W. Ballantine	II; 2011	Mr. Ballantine, 61, has been a director of the Company since June 2003. Mr. Ballantine served as Executive Vice President and Chief Risk Management Officer of First Chicago NBD Corporation from 1996 until 1998. Mr. Ballantine currently serves as a member of the Executive Network advisory board of Glencoe Capital, a private equity firm, and a member of the Board of Trustees of Window to the World Communications, Inc, a non-profit corporation. He also serves as a director of DWS-Scudder Funds, and Portland General Electric, where he serves on the Compensation Committee and is Chairman of the Finance Committee. He is also on the Board of Stockwell Capital Investments PLC, where he serves as chair of the Audit Committee.

The following eight persons currently are members of the Board of Directors and will continue in their present positions after the Annual Meeting. The following persons are not nominees, and stockholders are not being asked to vote for them. Certain information relating to the following persons has been furnished to us by the individuals named.

<b>Name of Director</b>	<b>Class of Director; Annual Meeting at Which Term Will Expire</b>	<b>Background Information</b>
Henry D. Herr	III; 2009	Mr. Herr, 61, has been a director of the Company since 1988. Mr. Herr served as Executive Vice President of Finance and Administration and Chief Financial Officer of the Company from September 1981 to October 2001. Mr. Herr is currently employed by the Company as an advisor on a part-time basis. Mr. Herr also is a director of AmSurg Corp, where he is a member of the Audit Committee.
Jay C. Bisgard, M.D.	III; 2009	Dr. Bisgard, 65, has been a director of the Company since June 2003. Dr. Bisgard served as Director of Health Services at Delta Air Lines, Inc. from January 1994 to April 2001. Prior to that, he served as the corporate medical director at Pacific Bell, GTE and ARCO. He retired from the U.S. Air Force in 1986 with the rank of colonel. He served as acting Deputy Assistant Secretary of Defense (Health Affairs) from 1981 to 1984. He is a fellow of the Aerospace Medical Association, the American College of Preventive Medicine, and the American College of



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<b>Name of Director</b>	<b>Class of Director; Annual Meeting at Which Term Will Expire</b>	<b>Background Information</b>
Mary Jane England, M.D.	III; 2009	Dr. England, 69, has been a director of the Company since September 2004. Dr. England has served as President of Regis College in Weston, Massachusetts since July 2001. From 1990 to 2001, she served as President of the Washington Business Group on Health. Prior to 1990, she served as Vice President of Prudential Insurance Co., Associate Dean at the John F. Kennedy School of Government at Harvard, Commissioner of Social Services, and Associate Commissioner of Mental Health in Massachusetts. She serves on the board of directors of NSF International.
John A. Wickens	III; 2009	Mr. Wickens, 51, was National Health Plan President of UnitedHealth Group from January 2004 to February 2006 and South Division President from September 2001 to December 2003. Prior to that time, he served in various capacities at UnitedHealth Group beginning in 1995. Mr. Wickens currently serves on the boards of directors of The Wellness Community, U.S.A. Track & Field Foundation and UnitedHealthcare Children's Foundation.
William C. O Neil, Jr.	I; 2010	Mr. O Neil, 73, has served as a director of the Company since 1985. From 1989 to 1999, Mr. O Neil was the Chairman, President and Chief Executive Officer of ClinTrials Research, Inc., a pharmaceutical research services company. Prior thereto, Mr. O Neil was Chairman, President and Chief Executive Officer of International Clinical Laboratories, Inc., a national laboratory testing company. Mr. O Neil is also a director of Sigma Aldrich Corporation, where he serves as chair of the Compensation Committee, and American HomePatient Inc., where he is a member of the Audit Committee, and Advocat, Inc., where he serves as Chair of the Audit Committee. Mr. O Neil is a member of the Compensation Committee on each of these boards of directors.
Ben R. Leedle, Jr.	I; 2010	Mr. Leedle, 46, has served as director of the Company since August 2003, and as Chief Executive Officer of the Company since September 2003. Mr. Leedle has served as President of the Company since May 2002. Mr. Leedle served as Chief Operating Officer of the Company from September 1999 to August 2003, Executive Vice President of the Company from September 1999 to May 2002, and as Senior Vice President of Operations from September 1997 to September 1999.





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Name of Director	Class of Director; Annual Meeting at Which Term Will Expire	Background Information
Alison Taunton-Rigby, Ph. D.	I; 2010	Dr. Taunton-Rigby, 63, has been a director of the Company since November 2005. Dr. Taunton-Rigby is the founder and Chief Executive Officer of RiboNovix, Inc., a private biotechnology company, since 2003. From 2001 to 2003, she served as the Chief Executive Officer of CMT, Inc., a private medical device company. From 1995 to 2000, Dr. Taunton-Rigby served as the Chief Executive Officer of Aquila Biopharmaceuticals, Inc., (Cambridge Biotech Corporation) a publicly-traded biotechnology company. She serves on the boards of directors of The RiverSource Funds, Abt Associates, where she serves as Chair of the Audit Committee, and Idera Pharmaceuticals, Inc., where she is a member of both the Audit and Compensation Committees. Dr. Taunton-Rigby also serves on the board of The Children's Hospital, Boston.
L. Ben Lytle	I; 2010	Mr. Lytle, 61, was the Chief Executive Officer and Chairman of Axia Health Management, LLC from November 2004 until the Company's acquisition of Axia in December 2006. Prior to Axia, Mr. Lytle was the Chief Executive Officer of Anthem (now Wellpoint, Inc.) from 1989 to 1999 and non-executive Chairman of the Board from 1999 to 2003. Mr. Lytle currently serves on the boards of directors of Duke Realty Corporation, where he serves as Lead Director and as Chair of the Governance Committee, and Monaco Coach Corporation, where he serves on the Compensation Committee and as Chair of the Governance Committee.

**Executive Compensation*****Compensation Discussion and Analysis***

The Compensation Committee of our Board of Directors (the "Committee") is comprised solely of non-employee directors as defined in Rule 16b-3 of the rules promulgated under the Securities Exchange Act of 1934, as amended, outside directors for purposes of regulations promulgated pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, and independent directors as defined in the NASDAQ corporate governance listing standards, in each case as determined by our Board of Directors. In addition to a determination of independence, the Nominating and Corporate Governance Committee of our Board recommends Committee membership based on such knowledge, experience and skills that it deems appropriate in order to adequately perform the responsibilities of the Committee. Drs. England, Taunton-Rigby, Bisgard and Neel and Mr. Ballantine have each served as members of the Committee since the date of our stockholders' meeting on February 2, 2007, with Dr. Bisgard serving as the Committee's chair.

The Committee is responsible for evaluating the performance of our executive officers and recommending to the independent directors the compensation of each of our executive officers and administering our equity-based incentive plans, among other things. The Committee undertakes these responsibilities pursuant to a written charter

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Vanguard Target Retirement 2035

-

2,193,228

Vanguard

Vanguard Target Retirement 2040

-

2,326,152

Vanguard

Vanguard Target Retirement 2045

-

1,321,646

Vanguard

Vanguard Target Retirement 2050

-

1,241,691

Vanguard

Vanguard Target Retirement 2055

-

440,813

Vanguard

Vanguard Target Retirement Income

-

537,312

\*

Virtus

Virtus Real Estate Securities Inst

-

2,132,396

\*

Wells Fargo Advantage

Wells Fargo Discovery A

-

1,883,537

**51,815,381**

**Common Stock**

\*

Salem Media Group, Inc. Corporation

Salem Media Group, Inc. Stock

-

**151,731**

**Collective Trust**

\*

Wells Fargo Bank, N.A.

Wells Fargo Stable Value Fund N15

-

**5,517,878**

**Notes Receivable**

\*

Notes receivable from participants

Bearing interest at 4% to 10.25%, various maturity dates

-

**1,439,024**

**\$ 58,924,014**



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the 401(k) Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

SALEM MEDIA GROUP, INC.

(Registrant)

SALEM MEDIA GROUP, INC., EMPLOYEES 401(k) PLAN

(Name of plan)

Date: June 27, 2016

By

/s/ Evan D. Masyr

Evan D. Masyr

Executive Vice President and Chief Financial  
Officer

(Principal Financial and Accounting Officer)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-182807 on Form S-8 of Salem Media Group, Inc. of our report dated June 27, 2016, appearing in this Annual Report on Form 11-K of Salem Media Group, Inc. Employees 401(k) Plan for the year ended December 31, 2015.

Crowe Horwath LLP

South Bend, Indiana

June 27, 2016

**CERTIFICATION**

**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of the Salem Media Group, Inc. Employees 401(k) Plan (the "Plan") on Form 11-K for the fiscal year ending December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Evan D. Masyr, Executive Vice President and Chief Financial Officer (the Plan Administrator ) of Salem Media Group, Inc., certify to my knowledge, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the net assets available for benefits and changes in net assets available for benefits of the Plan.

Date: June 27, 2016

/s/ Evan D. Masyr  
Evan D. Masyr  
Executive Vice President and Chief Financial Officer  
Salem Media Group, Inc.