

CITADEL BROADCASTING CORP  
Form 10-K  
March 16, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-31740

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**CITADEL BROADCASTING CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0405729**  
(I.R.S. Employer  
Identification No.)

**City Center West, Suite 400**

**7201 West Lake Mead Blvd.**

**Las Vegas, Nevada 89128**

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(Address of principal executive offices and zip code)

(702) 804-5200

(Registrant's telephone number, including area code)

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**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common stock, par value \$0.01 per share	New York Stock Exchange

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

NONE

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant on June 30, 2005, based upon the closing price of the common stock, was \$497.2 million.

As of February 28, 2006, there were 112,030,326 shares of common stock, \$.01 par value per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the 2005 Annual Report to Shareholders and the Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III.

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**Citadel Broadcasting Corporation**

**Form 10-K**

**December 31, 2005**

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**CERTAIN DEFINITIONS**

Unless the context requires otherwise, all references in this report to Citadel, we, us, our and similar terms refer to Citadel Broadcasting Corporation and its consolidated subsidiaries, which would include any variable interest entities that are required to be consolidated by the primary beneficiary under the requirements of Financial Accounting Standards Board ( FASB ) Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains, in addition to historical information, statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended.

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Forward-looking statements, including certain pro forma information, are presented for illustrative purposes only and reflect our current expectations concerning future results and events. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including any projections of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; the risk that the proposed business combination with the ABC Radio stations and ABC Radio Network may be delayed or not close; and any statements of assumptions underlying any of the foregoing.

You can identify these forward-looking statements by our use of words such as anticipates, believes, continues, expects, intends, likely, opportunity, plans, potential, project, will, and similar expressions to identify forward-looking statements, whether in the negative or the affirmative. We cannot guarantee that we actually will achieve these plans, intentions or expectations. These forward-looking statements are subject to risks, uncertainties and other factors, some of which are beyond our control, which could cause actual results to differ materially from those forecast or anticipated in such forward-looking statements.

The pro forma information (all of which relate to completed acquisitions) reflects adjustments and is presented for comparative purposes only and does not purport to be indicative of what has occurred or of future operating results or financial position. These risks, uncertainties and factors include, but are not limited to the factors described in Item 1A. Risk Factors.

You should not place undue reliance on these forward-looking statements, which reflect our view only as of the date of this report. We undertake no obligation to update these statements or publicly release the results of any revision(s) to these statements to reflect events, whether anticipated, or circumstances after the date of this report.

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***PART I***

**ITEM 1. BUSINESS**

Citadel is the fifth largest radio broadcasting company in the United States based on net broadcasting revenue. As of February 28, 2006, we owned and operated 163 FM and 58 AM radio stations in 49 markets located in 24 states across the country. We have a well-clustered radio station portfolio that is diversified by programming formats, geographic regions, audience demographics and advertising clients. We rank first or second in audience share in 35 of our 45 rated markets. Our top 25 markets accounted for approximately 76% of our 2005 revenue.

Our predecessor company was founded in 1991, we were incorporated in Delaware in 1993, and in 2001, affiliates of Forstmann Little & Co. acquired substantially all of our outstanding common stock in a leveraged buyout transaction.

On August 6, 2003, we completed an initial public offering of 25.3 million shares of our common stock at \$19.00 per share, resulting in net proceeds to us of approximately \$448.0 million. We used substantially all of the net proceeds from the offering to repay amounts outstanding under our then-existing credit facility.

On February 18, 2004, we completed a public offering of 29,630,000 shares of our common stock, including 9,630,000 primary shares sold by us and 20,000,000 shares sold by certain of our shareholders, at \$19.00 per share. On the same date, we completed a private placement of \$330.0 million of convertible notes due 2011. We used the approximately \$500.0 million of net proceeds we received from these two offerings to redeem all of our outstanding 6% subordinated debentures.

On February 6, 2006, we and a wholly owned subsidiary entered into an Agreement and Plan of Merger (the ABC Radio Merger Agreement) with The Walt Disney Company ( TWDC ) and ABC Chicago FM Radio, Inc., a Delaware corporation and wholly owned subsidiary of TWDC. Pursuant to and subject to the terms and conditions contained in the ABC Radio Merger Agreement, we will combine ABC Radio, which includes 22 radio stations and the ABC Radio Network, with the Company. Immediately after closing of the merger transactions and subject to adjustments described in the ABC Radio Merger Agreement, the former holders of TWDC common stock will own approximately 52% of the common stock of the combined Company, which will be named Citadel Communications. The merger and the issuance of our common stock in the merger have been approved by written consent by holders of record of a majority of our common stock. (See Item 8, Financial Statements and Supplementary Data, Note 1 for more information).

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The table below summarizes the markets in which we owned and operated radio stations as of February 28, 2006.

	Market Revenue Rank	Number of Owned and Operated Commercial Stations in the Market		Number of Our Stations(1)(2)		Number of Station Owners in the Market	Our Station Group Audience Share		Our Station Group Revenue Rank(4)
		FM	AM	FM	AM		Share	Rank(3)	
Salt Lake City, UT	35	29	20	5	3	20	18.9	2	2
Nashville, TN	38	22	26	2		30	8.2	4	4
New Orleans, LA	40	18	17	4		17	N/R	N/R	3
Buffalo, NY	43	13	13	3		12	21.6	3	3
Memphis, TN	45	22	21	4		17	16.1	2	2
Providence, RI	48	16	20	4	2	18	20.9	2	2
Oklahoma City, OK	50	19	14	5	2	13	21.5	2	1
Birmingham, AL	52	19	20	4	2	18	24.6	2	2
Grand Rapids, MI	56	15	13	4	1	11	15.7	2	2
Tucson, AZ	58	15	14	3	2	12	19.6	3	3
Albuquerque, NM	61	23	15	5	3	13	31.7	1	1
Knoxville, TN	66	16	21	4	1	20	27.2	1	1
Harrisburg/Carlisle/York, PA	69	12	11	3		12	12.1	3	3
Syracuse, NY	70	19	12	3	1	7	15.9	3	2
Little Rock, AR	72	22	14	7	3	16	34.3	1	1
Columbia, SC	73	17	9	3	1	10	18.1	3	3
Colorado Springs, CO	74	15	8	3	2	11	21.1	2	1
Baton Rouge, LA	75	13	8	4	2	7	25.9	2	2
Des Moines, IA	75	14	9	4	1	8	24.5	3	3
Allentown/Bethlehem, PA	77	7	10	2		9	20.0	2	2
Wilkes-Barre/Scranton, PA	83	21	18	5	1	11	19.4	2	2
Charleston, SC	84	19	10	5	2	10	31.6	1	1
Reno, NV	85	17	11	3	1	12	17.5	2	2
Chattanooga, TN	88	14	14	3	1	15	15.4	3	2
Boise, ID	90	17	10	4	2	10	32.6	1	1
Spokane, WA	94	18	11	4	3	10	26.0	2	2
Saginaw/Bay City, MI	96	15	5	5		8	25.7	2	1
Lansing/East Lansing, MI	97	10	7	4	2	6	40.3	1	1
Modesto, CA	106	16	6	5	1	10	28.8	1	1
Springfield, MA	106	10	10	1	1	9	10.9	2	3
Portland, ME	111	18	9	6		6	22.0	2	2
Johnson City/Kingsport/Bristol, TN	112	13	22	2	3	19	21.6	2	2
Lafayette, LA	113	19	10	4	1	11	29.2	1	2
Flint, MI	120	9	8	1	1	8	7.7	3	3
Portsmouth/Dover/Rochester, NH	125	10	7	4		8	14.1	2	2
Worcester, MA	147	5	8	3		7	15.0	1	2
Lancaster, PA	150	6	4	1	1	7	9.1	2	1
Binghamton, NY	167	11	5	3	2	7	32.3	1	1
Erie, PA	173	8	5	3	1	5	35.1	2	2

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	Market Revenue Rank	Number of Owned and Operated Commercial Stations in the Market		Number of Our Stations(1)(2)		Number of Station Owners in the Market	Our Station Group Audience Share		Our Station Group Revenue Rank(4)
		FM	AM	FM	AM		Share	Rank(3)	
New London, CT	186	8	2	3	1	3	14.5	3	2
Stockton, CA	190	10	4	2		5	12.9	1	1
Tuscaloosa, AL	219	9	5	4	2	5	27.7	1	2
Muncie-Marion, IN	237	6	4	1	1	4	N/A	N/A	3
New Bedford, MA	263	7	5	1	1	6	11.0	1	1
Augusta/Waterville, ME	273	9	5	2	2	5	15.2	2	2
Ithaca, NY	279	4	4	1	1	4	8.0	1	2
Muskegon, MI	284	8	3	3	1	2	11.7	2	2
Other(5)	N/A	N/A	N/A	4		N/A	N/R	N/R	N/A
Total				163	58				

N/R Not rated.

N/A Information not available.

- (1) The market assignments on this table reflect the way we cluster our regional station groups for accounting and operational purposes and do not necessarily mean that the station is located in the market as defined by Arbitron or the Federal Communications Commission ( FCC ). Compliance with the FCC 's local radio ownership limits is measured by reference to the number of stations a company holds in a particular market as that market is defined by the FCC. For a discussion of the impact of the new FCC rules on us and our station clusters, see Federal Regulation of Radio Broadcasting Multiple Ownership Rules and Federal Regulation of Radio Broadcasting Time Brokerage .
- (2) In addition to the stations listed in this table, we entered into an option agreement on November 5, 2002 to acquire one FM station serving the Oklahoma City, OK market and are currently operating this station under a local marketing agreement. On July 2, 2003, we entered into a local marketing agreement related to a radio station in Knoxville, TN. We entered into a local marketing agreement to operate a station in the Muskegon, MI market pending the completion of our acquisition of that station. Also, we own two stations in Buffalo, NY that are being operated by a third party under a local marketing agreement. One of our local marketing agreements does not comply with the FCC 's new ownership limits. We will be required to terminate this agreement or otherwise come into compliance with the FCC 's ownership rules by September 3, 2006. We do not believe that termination of this agreement or our actions to come into compliance with the new rules with respect to this agreement will have a material impact on our business or our results of operations.
- (3) The Station Group Audience Share Rank is the ranking of our station group among all station groups within the demographic of people ages 25-54, listening Monday through Sunday, 6 a.m. to 12 midnight based upon the total station group 's audience share in that market.
- (4) The Station Group Revenue Rank is the ranking, by station group market revenue, of our station group among all station groups in that market.
- (5) Includes radio stations in our Kokomo, IN and Presque Isle, ME markets, which are not rated by Arbitron.

**Market and Industry Data**

We based or derived the station and market data we present in this Form 10-K from third-party sources. Unless otherwise indicated:

we derived all audience share data and audience ranking information from surveys of people ages 25-54, listening Monday through Sunday, 6 a.m. to 12 midnight, pertaining to each market, based on the Fall 2005 Market Report published by The Arbitron Ratings Company; and

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we derived our station group revenue ranking information for the full year 2004, our 2004 market revenue rank, the number of owned and operated stations in the market and the number of station groups in the market from BIA Financial Network, Inc.'s BIAfn's MEDIA Access Pro as of February 21, 2006.

While we believe these industry publications are reliable, we have not independently verified them.

### **Strategy**

*Operate and Develop Leading Station Clusters.* We believe that it is important to own multiple stations in each of the markets in which we operate in order to maximize our ability to achieve leadership positions, increase operating efficiencies and compete more effectively with other forms of local media. We rank first or second in audience share in 35 of our 45 rated markets. Our stations cover a wide range of programming formats, geographic regions, audience demographics and advertising clients.

*Emphasize Programming.* We analyze market research and competitive factors to identify the key programming attributes that we believe will best position each station to develop a distinctive identity, or a local brand, and to maximize its appeal to local audiences and advertisers. Our programming strategy includes developing or contracting with significant on-air talent, creating recognizable brand names for selected stations. We believe this strategy significantly enhances the presence, marketability and competitiveness of our stations, leading to greater audience share and consequently higher revenues and operating income excluding non-cash expenses (depreciation, amortization and amortization of non-cash stock compensation).

*Build Geographic, Format and Customer Diversity.* We seek to diversify our portfolio of radio stations in many respects. Our stations are located in markets throughout the country and serve diverse target demographics through a broad range of programming formats such as rock, country, adult contemporary, oldies, urban and sports/news/talk. This diversity reduces our dependence on any particular local economy, market, station, format, on-air personality or advertiser. Similarly, we seek to develop a broad base of local and regional advertisers. During the year ended December 31, 2005, we generated approximately 86% of our net broadcasting revenue from local and regional advertising and approximately 14% from the sale of national advertising. No single advertiser accounted for more than 10% of our net broadcasting revenue.

*Apply Improved Sales and Marketing to Capture Greater Share of Advertising Revenues.* The development of a high-quality local sales organization in each of our markets is critical to our success. We rank first or second in revenue market share in 37 of our 47 ranked markets. In each market, we assess our station portfolio, the local market environment and the strength of our sales personnel to determine whether to pursue a "cluster sale" strategy or to create a separate sales force for each station. We place significant emphasis on recruiting quality sales people, setting clear financial and sales goals and rewarding achievement of those goals with generous commissions and bonus compensation. We also target regional sales, which we define as sales in regions surrounding our markets to companies that advertise in our markets, through our local sales force. We reach national advertisers in partnership with a national representative firm, offering advertising time on individual stations or across our overall network of stations.

*Participate in Local Communities.* As a local sales and advertising medium, we place significant emphasis on serving the local community. We believe our active involvement reinforces our position in the local communities and significantly improves the marketability of our radio broadcast time to advertisers who are targeting these communities.

*Optimize Technical Capabilities.* We believe that a strong signal is an important component of a station's success. We seek to operate stations with the strongest signals in their respective markets and view signal strength as an important consideration in any acquisitions we make.



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*Pending Transaction.* The ABC Radio Merger Agreement imposes certain restrictions on our ability to conduct acquisitions and make dispositions prior to the closing. In light of this pending merger, the Company does not currently intend to make any significant acquisitions.

### **Competition**

We operate in a highly competitive industry. Our radio stations compete for audiences and advertising revenue directly with other radio stations as well as with other media, such as broadcast television, newspapers, magazines, cable television, satellite television, satellite radio, the Internet, outdoor advertising and direct mail, within their respective markets. The growth of Internet radio could result in increased competition. Our radio stations also face increasing competition from new consumer products such as portable digital audio players, which create new ways for individuals to listen to music and other content of their own choosing without traditional commercial advertisements. Our audience ratings and market shares are subject to change and any adverse change in a particular market could have a material adverse effect on our revenue in that market and possibly adversely affect our revenue in other markets.

Our radio stations compete for listeners and advertising revenue directly with other radio stations within their respective markets. Radio stations compete for listeners primarily on the basis of program content that appeals to a particular demographic group. By building a strong listener base consisting of a specific demographic group in each of our markets, we are able to attract advertisers seeking to reach those listeners. From time to time, competitors may change their stations' format or programming to compete directly with our stations for audiences and advertisers, or may engage in aggressive promotional campaigns, which could result in lower ratings and advertising revenue or increased promotion and other expenses and, consequently, lower earnings and cash flow for us. Audience preferences as to format or programming in a particular market may also shift due to demographic or other reasons.

Factors that are material to a radio station's competitive position include management experience, the station's audience rank in its local market, transmitter power, assigned frequency, audience characteristics, local program acceptance and the number and characteristics of other radio stations in the market area. We attempt to improve our competitive position in each market by researching stations' programming, implementing advertising and promotional campaigns aimed at the demographic groups for which our stations program and managing our sales efforts to attract a larger share of advertising revenue. We also compete with other radio station groups to purchase additional stations.

Although the radio broadcasting industry is highly competitive, barriers to entry do exist (which can be mitigated to some extent by, among other things, changing existing radio station formats and upgrading power). The operation of a radio station requires a license or other authorization from the Federal Communications Commission (FCC) and the number of radio stations that can operate in a given market is limited by the availability of FM and AM radio frequencies allotted by the FCC to communities in that market. In addition, the FCC's multiple ownership rules have historically limited the number of stations that may be owned or controlled by a single entity in a given market. Changes in the FCC's multiple ownership rules resulting from the Telecommunications Act of 1996 created opportunities for us to acquire and consolidate radio stations in our markets. On June 2, 2003, the FCC concluded an omnibus rulemaking proceeding in which it examined all broadcast ownership rules, including the local radio ownership rule, the broadcast-newspaper ownership rule, the radio-television cross-ownership rule, the local television ownership rule, the national television ownership rule and the dual network rule. The FCC adopted new rules that significantly change how the FCC reviews radio station transactions. Although the FCC made no change to the local radio ownership limits themselves (e.g., in a market with 45 or more radio stations, a company may own eight stations in a single market, but no more than five in the same service, AM or FM), the FCC changed how it defines and counts the number of stations in a market. The rule change has the effect in some instances of both (i) decreasing the number of radio stations deemed to be in the market overall, thereby lowering the applicable ownership tier, and (ii) increasing the number of radio stations that we are deemed to own in the market. Under the new rule, our existing station

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portfolio exceeds the applicable ownership limit in seven markets. Existing ownership combinations, however, are grandfathered, meaning the FCC will not require us to divest stations that we currently own in order to come into compliance with the new rules. We would be required to divest stations to comply with the existing rule if there is a substantial change in control (as defined under the FCC's rules and policies) of the Company or we attempt to acquire additional stations in the market. We would also not be permitted to transfer grandfathered clusters to a third party, unless the third party is a small business as defined by the FCC. The new rule also affects our ability to expand our ownership in certain markets.

The new rules were to become effective on September 4, 2003, but were stayed by the U.S. Court of Appeals for the Third Circuit on September 3, 2003 pending the outcome of appeals filed by several entities. A number of parties also filed requests with the FCC seeking reconsideration of certain aspects of the new rules. On September 3, 2004, the Third Circuit issued an Order granting in part a request filed by the FCC to partially lift the court's stay. The Order permitted the new local radio ownership rules adopted June 2, 2003 to go into effect. In addition, a number of parties have urged Congress to undertake a comprehensive review of the Communications Act, including its ownership provisions, and proposals may be introduced in Congress which could result in still different ownership rules affecting, among other matters, the number of stations that may be owned in a common geographic area and whether existing combinations would be considered as grandfathered. We cannot assess in advance what impact such court and administrative proceedings and legislation might have on our business or what other matters might be considered in the future by the FCC or Congress. For a discussion of FCC regulation and the provisions of the Telecommunications Act of 1996 resulting in rapid consolidation in the radio industry, see *Federal Regulation of Radio Broadcasting*.

The radio broadcasting industry is also subject to technological change, evolving industry standards and the emergence of new media technologies. Several new media technologies have been or are being developed, including the following:

audio programming by cable television systems, direct broadcast satellite systems, Internet content providers (both landline and wireless) and other digital audio broadcast formats;

satellite digital audio radio service, which now has two subscriber-based satellite radio services with numerous channels and sound quality equivalent to that of compact discs;

In-Band On-Channel digital radio, which could improve the quality of existing AM and FM radio signals, including stations owned by us; and

low power FM radio, which has resulted in additional FM radio broadcast outlets that are designed to serve small, localized areas. The radio broadcasting industry historically has grown despite the introduction of new technologies for the delivery of entertainment and information, including the introduction of new technologies used in the car such as audio cassettes, compact discs, satellite digital audio radio and cellular telephones. A growing population, greater use of the automobile and increased commuter times have contributed to this growth. Some of the new technologies, particularly satellite digital audio radio service, will compete for the consumer's attention in the car. We cannot assure you that this historical growth will continue.

### **Federal Regulation of Radio Broadcasting**

Our ownership, operation, purchase and sale of radio stations is regulated by the FCC, which acts under authority derived from the Communications Act. Among other things, the FCC:

assigns frequency bands for broadcasting;

determines the particular frequencies, locations, operating powers and other technical parameters of stations;



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issues, renews, revokes and modifies station licenses;

determines whether to approve changes in ownership or control of station licenses;

regulates equipment used by stations; and

adopts and implements regulations and policies that directly or indirectly affect the ownership, operation and employment practices of stations.

The FCC has the power to impose penalties for violations of its rules or the Communications Act, including fines, the grant of abbreviated license renewal terms or, for particularly egregious violations, the denial of a license renewal application, the revocation of a license or the denial of FCC consent to acquire additional radio stations.

The following is a brief summary of some provisions of the Communications Act and of specific FCC regulations and policies. The summary is not a comprehensive listing of all of the regulations and policies affecting radio stations. For further information concerning the nature and extent of federal regulation of radio stations, you should refer to the Communications Act, FCC rules and FCC public notices and rulings.

### *License Grant and Renewal*

Radio stations operate under renewable broadcasting licenses that are ordinarily granted by the FCC for maximum terms of eight years. Licenses are renewed through an application to the FCC. A station may continue to operate beyond the expiration date of its license if a timely filed license application is pending. Petitions to deny license renewals can be filed by interested parties, including members of the public. These petitions may raise various issues before the FCC. The FCC is required to hold hearings on renewal applications if the FCC is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a substantial and material question of fact as to whether the grant of the renewal application would be inconsistent with the public interest, convenience and necessity. If, as a result of an evidentiary hearing, the FCC determines that the licensee has failed to meet various requirements and that no mitigating factors justify the imposition of a lesser sanction, then the FCC may deny a license renewal application. Historically, FCC licenses generally have been renewed, although we cannot assure you that all of our licenses will be renewed. The non-renewal, or renewal with substantial conditions or modifications, of one or more of our FCC radio station licenses could have a material adverse effect on our business.

The FCC classifies each AM and FM station. An AM station operates on either a clear channel, regional channel or local channel. A clear channel is one on which AM stations are assigned to serve wide areas. Clear channel AM stations are classified as either:

Class A stations, which operate on an unlimited time basis and are designed to render primary and secondary service over an extended area;

Class B stations, which operate on an unlimited time basis and are designed to render service only over a primary service area; or

Class D stations, which operate either during daytime hours only, during limited times only or on an unlimited time basis with low nighttime power.

A regional channel is one on which Class B and Class D AM stations may operate and serve primarily a principal center of population and the rural areas contiguous to it. A local channel is one on which AM stations operate on an unlimited time basis and serve primarily a community and the suburban and rural areas immediately contiguous to it. Class C AM stations operate on a local channel and are designed to render service only over a primary service area that may be reduced as a consequence of interference.

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The minimum and maximum facilities requirements for an FM station are determined by its class. Some FM class designations depend upon the geographic zone in which the transmitter of the FM station is located. In general, commercial FM stations are classified as Class A, B1, C3, B, C2, C1, C0 and C, in order of increasing power and antenna height. The FCC recently adopted a rule that subjects Class C FM stations to involuntary downgrades to Class C0 in various circumstances if they do not meet certain antenna height specifications. Five of our stations have been downgraded, and two proceedings are pending that could result in downgrades, but the downgrades have no effect on the stations' existing signals. We have several applications currently pending to upgrade the facilities of various of our stations.

The following table sets forth the metropolitan market served (the city of license may differ), call letters, FCC license classification, frequency, power and FCC license expiration date of each of the stations that we own. Our wholly owned subsidiary, Citadel Broadcasting Company, holds our licenses. Pursuant to FCC rules and regulations, many AM radio stations are licensed to operate at a reduced power during the nighttime broadcasting hours, which results in reducing the radio station's coverage during the nighttime hours of operation. Both power ratings are shown if different. For FM stations, the maximum effective radiated power (ERP) in the main lobe is given. The market assignments on this table reflect our regional station groups for accounting and operational purposes and do not necessarily reflect assignment of a station to the relevant market as defined by Arbitron.

Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
Albuquerque, NM	KBZU(FM)	C	1260	17.5	96.3 MHz	10/1/2005
	KKOB(AM)	B	N/A	50	770 kHz	10/1/2005
	KKOB - FM	C	1265	20	93.3 MHz	10/1/2013
	KMGA(FM)	C	1259	19.5	99.5 MHz	10/1/2005
	KNML(AM)	B	N/A	5	610 kHz	10/1/2013
	KRST(FM)	C	1268	22	92.3 MHz	10/1/2013
	KTBL(AM)	B	N/A	1.0	1050 kHz	10/1/2013
	KDRF(FM)	C	1293	20	103.3 MHz	10/1/2013
Allentown/Bethlehem, PA	WCTO(FM)	B	152	50	96.1 MHz	8/1/2006
	WLEV(FM)	B	327	11	100.7 MHz	8/1/2006
Augusta/Waterville, ME	WEBB(FM)	C1	93	61	98.5 MHz	4/1/2006
	WJZN(AM)	C	N/A	1	1400 kHz	4/1/2006
	WMME - FM	B	152	50	92.3 MHz	4/1/2006
	WTVL(AM)	C	N/A	1	1490 kHz	4/1/2006
Baton Rouge, LA	KRDJ(FM)	C1	296	100	93.7 MHz	6/1/2012
	KQXL - FM	C2	148	50	106.5 MHz	6/1/2012
	WCDV(FM)	C	306	100	103.3 MHz	6/1/2012
	WEMX(FM)	C1	299	100	94.1 MHz	6/1/2012
	WIBR(AM)	B	N/A	5.0/1.0	1300 kHz	6/1/2012
	WXOK(AM)	B	N/A	5.0/1.0	1460 kHz	6/1/2012
Binghamton, NY	WAAL(FM)	B	291	8.7	99.1 MHz	6/1/2006
	WHWK(FM)	B	395	6.7	98.1 MHz	6/1/2006
	WNBF(AM)	B	N/A	9.3/5.0	1290 kHz	6/1/2006
	WWYL(FM)	A	254	0.93	104.1 MHz	6/1/2006
	WYOS(AM)	B	N/A	5/0.5	1360 kHz	6/1/2006
Birmingham, AL	WAPI(AM)	B	N/A	50.0/5.0	1070 kHz	4/1/2012
	WJOX(AM)	B	N/A	50.0/0.50	690 kHz	4/1/2012
	WRAX(FM)	C1	275	93	100.5 MHz	4/1/2012
	WUHT(FM)	C	377	100	107.7 MHz	4/1/2012

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Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
	WYSF(FM)	C0	309	100	94.5 MHz	4/1/2012
	WZRR(FM)	C0	309	100	99.5 MHz	4/1/2012
Boise, ID	KBOI(AM)	B	N/A	50	670 kHz	10/1/2013
	KIZN(FM)	C	828	48	92.3 MHz	10/1/2013
	KKGL(FM)	C	828	48	96.9 MHz	10/1/2013
	KQFC(FM)	C	828	48	97.9 MHz	10/1/2013
	KZMG(FM)	C	828	48	93.1 MHz	10/1/2013
	KTIK(AM)	B	N/A	5.0/0.60	1350 kHz	10/1/2005
Buffalo, NY	WEDG(FM)	B	106	49	103.3 MHz	6/1/2006
	WGRF(FM)	B	217	24	96.9 MHz	6/1/2006
	WHLA(AM)	B	N/A	5.0/1.0	1270 kHz	6/1/2006
	WHTT - FM	B	68	50	104.1 MHz	6/1/2006
	WBBF(AM)	D	N/A	1	1120 kHz	6/1/2006
Charleston, SC	WMGL(FM)	C3	131	5.3	101.7 MHz	12/1/2011
	WNKT(FM)	C	300	100	107.5 MHz	12/1/2011
	WSSX - FM	C0	305	100	95.1 MHz	12/1/2011
	WSUY(FM)	C	539	99	96.9 MHz	12/1/2011
	WTMA(AM)	B	N/A	5.0/1.0	1250 kHz	12/1/2011
	WWWZ(FM)	C2	150	50	93.3 MHz	12/1/2003
	WXTC(AM)	B	N/A	5	1390 kHz	12/1/2011
Chattanooga, TN	WGOW(AM)	B	N/A	5.0/1.0	1150 kHz	8/1/2012
	WGOW - FM	A	87	6	102.3 MHz	8/1/2012
	WOGT(FM)	C3	295	2.85	107.9 MHz	8/1/2012
	WSKZ(FM)	C	329	100	106.5 MHz	8/1/2012
Colorado Springs, CO	KKFM(FM)	C	698	71	98.1 MHz	4/1/2013
	KKMG(FM)	C	695	57	98.9 MHz	4/1/2013
	KSPZ(FM)	C	670	60	92.9 MHz	4/1/2013
	KKML(AM)	B	N/A	5/1	1300 kHz	4/1/2013
	KVOR(AM)	B	N/A	3.3/1.5	740 kHz	4/1/2013
Columbia, SC	WISW(AM)	B	N/A	5.0/2.5	1320 kHz	12/1/2011
	WLXC(FM)	A	100	6	98.5 MHz	12/1/2003
	WOMG(FM)	A	94	6	103.1 MHz	12/1/2011
	WTCB(FM)	C1	240	100	106.7 MHz	12/1/2011
Des Moines, IA	KBGG(AM)	B	N/A	10.0/1.0	1700 kHz	2/1/2013
	KHKI(FM)	C1	137	115	97.3 MHz	2/1/2013
	KGGO(FM)	C	325	100	94.9 MHz	2/1/2013
	KJJY(FM)	C2	165	41	92.5 MHz	2/1/2013
	KWQW(FM)	C2	165	41	98.3 MHz	2/1/2013
Erie, PA	WXKC(FM)	B	150	50	99.9 MHz	8/1/2006
	WXTA(FM)	B1	154	10	97.9 MHz	8/1/2006
	WRIE(AM)	B	N/A	5	1260 kHz	8/1/2006
	WQHZ(FM)	A	187	1.7	102.3 MHz	8/1/2006
Flint, MI	WFBE(FM)	B	74	50	95.1 MHz	10/1/2012
	WTRX(AM)	B	N/A	5.0/1.0	1330 kHz	10/1/2012

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Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
Grand Rapids, MI	WBBL(AM)	C	N/A	1	1340 kHz	10/1/2012
	WTNR(FM)	B	152	50	94.5 MHz	10/1/2004
	WLAV - FM	B	149	50	96.9 MHz	10/1/2012
	WKLQ(FM)	B	150	50	107.3 MHz	10/1/2012
	WCXT(FM)	C2	201	28	105.3 MHz	10/1/2012
Harrisburg/Carlisle/York, PA	WMHX(FM)	B	283	14	106.7 MHz	8/1/2006
	WQXA - FM	B	215	25	105.7 MHz	8/1/2006
	WCAT - FM	A	100	3	102.3 MHz	8/1/2006
Ithaca, NY	WIII(FM)	B	223	23.5	99.9 MHz	6/1/2006
	WKRT(AM)	B	N/A	1.0/0.50	920 kHz	6/1/2006
Johnson City/Kingsport/Bristol, TN	WGOC(AM)	B	N/A	10.0/0.81	640 kHz	8/1/2012
	WJCW(AM)	B	N/A	5.0/1.0	910 kHz	8/1/2012
	WKIN(AM)	B	N/A	5.0/0.50	1320 kHz	8/1/2012
	WKOS(FM)	A	150	2.75	104.9 MHz	8/1/2012
	WQUT(FM)	C	457	99	101.5 MHz	8/1/2012
Knoxville, TN	WIVK - FM	C	626	91	107.7 MHz	8/1/2012
	WNML(AM)	B	N/A	10	990 kHz	8/1/2012
	WNML - FM	A	100	6	99.1 MHz	8/1/2012
	WOKI(FM)	C3	174	8	98.7 MHz	8/1/2012
	WNRX(FM)	A	199	0.94	99.3 MHz	8/1/2012
Kokomo, IN	WWKI(FM)	B	143	50	100.5 MHz	8/1/2012
Lafayette, LA	KNEK(AM)	D	N/A	0.25	1190 kHz	6/1/2012
	KNEK - FM	C3	100	25	104.7 MHz	6/1/2012
	KRRQ(FM)	C2	135	50	95.5 MHz	6/1/2012
	KSMB(FM)	C	329	100	94.5 MHz	6/1/2012
	KXKC(FM)	C0	300	100	99.1 MHz	6/1/2012
Lancaster, PA	WIOV - FM	B	214	25	105.1 MHz	8/1/2006
	WIOV(AM)	C	N/A	1	1240 kHz	8/1/2006
Lansing/East Lansing, MI	WFMK (FM)	B	183	28	99.1 MHz	10/1/2012
	WITL - FM	B	196	26.5	100.7 MHz	10/1/2012
	WJIM(AM)	C	N/A	0.89	1240 kHz	10/1/2012
	WJIM - FM	B	156	45	97.5 MHz	10/1/2012
	WMMQ(FM)	B	150	50	94.9 MHz	10/1/2012
	WVFN(AM)	D	N/A	0.50/0.05	730 kHz	10/1/2012
Little Rock, AR	KAAY(AM)	A	N/A	50	1090 kHz	6/1/2012
	KARN(AM)	B	N/A	5	920 kHz	6/1/2012
	KVLO(FM)	A	100	3	102.5 MHz	6/1/2012
	KIPR(FM)	C1	286	100	92.3 MHz	6/1/2012
	KPZK - FM	A	100	6	101.7 MHz	6/1/2012
	KLAL(FM)	C2	95	50	107.7 MHz	6/1/2012
	KPZK(AM)	B	N/A	2.0/1.2	1250 kHz	6/1/2012
	KOKY(FM)	A	118	4.1	102.1 MHz	6/1/2012
	KURB(FM)	C	392	99	98.5 MHz	6/1/2012
	KARN - FM	C2	150	50	102.9 MHz	6/1/2012

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Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
Memphis, TN	WRBO(FM)	C1	179	100	103.5 MHz	6/1/2012
	WGKX(FM)	C	303	100	105.9 MHz	8/1/2012
	WXMV(FM)	C1	265	100	98.1 MHz	8/1/2012
	WMPW(FM)	C1	346	40	98.9 MHz	8/1/2004
Modesto, CA	KATM(FM)	B	152	50	103.3 MHz	12/1/2013
	KDJK(FM)	A	624	0.071	103.9 MHz	12/1/2013
	KESP(AM)	B	N/A	1	970 kHz	12/1/2013
	KHKK(FM)	B	152	50	104.1 MHz	12/1/2013
	KHOP(FM)	B	193	29.5	95.1 MHz	12/1/2013
	KWNN(FM)	A	119	2	98.3 MHz	12/1/2013
Muncie/Marion, IN	WMDH(AM)	B	N/A	0.25	1550 kHz	8/1/2012
	WMDH - FM	B	152	50	102.5 MHz	8/1/2012
Muskegon, MI	WLCS(FM)	A	139	1.6	98.3 MHz	10/1/2012
	WODJ(AM)	C	N/A	1.0	1490 kHz	10/1/2012
	WVIB(FM)	A	144	2.9	100.1 MHz	10/1/2012
	WKOQ(FM)	A	165	2.25	92.5 MHz	License Pending
Nashville, TN	WGFX(FM)	C1	368	58	104.5 MHz	8/1/2012
	WKDF(FM)	C0	376	100	103.3 MHz	8/1/2012
New Bedford, MA	WBSM(AM)	B	N/A	5.0/1.0	1420 kHz	4/1/2006
	WFHN(FM)	A	105	5.4	107.1 MHz	4/1/2006
New London, CT	WQGN - FM	A	84	3	105.5 MHz	4/1/2006
	WSUB(AM)	D	N/A	1.0/0.072	980 kHz	4/1/2006
	WXML(FM)	A	100	3	102.3 MHz	4/1/2006
	WMOS(FM)	A	96	6	104.7 MHz	6/1/2006
New Orleans, LA	KMEZ(FM)	C3	184	4.7	102.9 MHz	6/1/2012
	KKND(FM)	C1	299	98	106.7 MHz	6/1/2012
	WDVW(FM)	C	593	100	92.3 MHz	6/1/2012
	WMTI(FM)	C2	201	28	106.1 MHz	6/1/2012
Oklahoma City, OK	KATT - FM	C	363	97	100.5 MHz	6/1/2013
	KKWD(FM)	A	96	6	97.9 MHz	6/1/2013
	WWLS - FM	A	100	6	104.9 MHz	6/1/2013
	KYIS(FM)	C	335	100	98.9 MHz	6/1/2013
	WWLS(AM)	B	N/A	5.0/1.0	640 kHz	6/1/2013
	KINB(FM)	A	254	0.93	105.3 MHz	6/1/2013
	WKY(AM)	B	N/A	5.0/5.0	930 kHz	6/1/2013
Portland, ME	WBLM(FM)	C	435	100	102.9 MHz	4/1/2006
	WCLZ(FM)	B	122	48	98.9 MHz	4/1/2006
	WCYI(FM)	B	193	27.5	93.9 MHz	4/1/2006
	WCYY(FM)	B1	147	11.5	94.3 MHz	4/1/2006
	WHOM(FM)	C	1141	48	94.9 MHz	4/1/2006
	WJBQ(FM)	B	271	16	97.9 MHz	4/1/2006
Portsmouth/Dover/Rochester, NH	WOKQ(FM)	B	150	50	97.5 MHz	4/1/2006
	WPKQ(FM)	C	1181	21.5	103.7 MHz	4/1/2006



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Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
	WSAK(FM)	A	100	3	102.1 MHz	4/1/2006
	WSHK(FM)	A	113	2.2	105.3 MHz	4/1/2006
Presque Isle, ME	WBPW(FM)	C1	131	100	96.9 MHz	4/1/2006
	WOZI(FM)	C2	368	7.9	101.9 MHz	4/1/2006
	WQHR(FM)	C	390	95	96.1 MHz	4/1/2006
Providence, RI	WPRO(AM)	B	N/A	5	630 kHz	4/1/2006
	WPRO - FM	B	168	39	92.3 MHz	4/1/2006
	WSKO(AM)	B	N/A	5	790 kHz	4/1/2006
	WSKO - FM	A	163	2.3	99.7 MHz	4/1/2006
	WWLI(FM)	B	152	50	105.1 MHz	4/1/2006
	WWKX(FM)	A	158	1.15	106.3 MHz	4/1/2006
Reno, NV	KBUL - FM	C	699	72	98.1 MHz	10/1/2013
	KKOH(AM)	B	N/A	50	780 kHz	10/1/2013
	KNEV(FM)	C	695	60	95.5 MHz	10/1/2013
	KWYL(FM)	C	892	39	102.9 MHz	12/1/2005
Saginaw/Bay City, MI	WHNN(FM)	C	311	100	96.1 MHz	10/1/2012
	WILZ(FM)	A	126	2.9	104.5 MHz	10/1/2004
	WIOG(FM)	B	244	86	102.5 MHz	10/1/2012
	WKQZ(FM)	C2	169	39.2	93.3 MHz	10/1/2012
	WYLZ(FM)	A	151	2.6	100.9 MHz	10/1/2004
Salt Lake City, UT	KKAT(AM)	D	N/A	10.0/0.196	860 kHz	10/1/2013
	KBEE(FM)	C	894	40	98.7 MHz	10/1/2013
	KBER(FM)	C	1140	25	101.1 MHz	10/1/2013
	KENZ(FM)	C	1140	26	101.9 MHz	10/1/2013
	KKAT - FM	C	869	43	107.5 MHz	10/1/2013
	KFNZ(AM)	B	N/A	5	1320 kHz	10/1/2013
	KJQS(AM)	C	N/A	1	1230 kHz	10/1/2013
	KUBL - FM	C	1140	25	93.3 MHz	10/1/2013
Spokane, WA	KZBD(FM)	C	582	100	105.7 MHz	2/1/2014
	KEYF(AM)	B	N/A	5/2.6	1050 kHz	2/1/2014
	KDRK - FM	C	739	60	93.7 MHz	2/1/2014
	KEYF - FM	C	490	100	101.1 MHz	2/1/2006
	KGA(AM)	A	N/A	50	1510 kHz	2/1/2014
	KJRB(AM)	B	N/A	5/3.8	790 kHz	2/1/2014
	KBBD(FM)	C1	432	39	103.9 MHz	2/1/2014
Springfield, MA	WMAS(AM)	C	N/A	1	1450 kHz	4/1/2006
	WMAS - FM	B	59	50	94.7 MHz	4/1/2006
Stockton, CA	KJOY (FM)	A	110	4.8	99.3 MHz	12/1/2013
	KWIN (FM)	A	91	3	97.7 MHz	12/1/2013
Syracuse, NY	WAQX - FM	B1	91	25	95.7 MHz	6/1/2006
	WLTJ (FM)	A	61	4	105.9 MHz	6/1/2006
	WNSS (AM)	B	N/A	5	1260 kHz	6/1/2006
	WNTQ (FM)	B	201	97	93.1 MHz	6/1/2006

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Market	Station	FCC Class	HAAT in meters	(ERP) in kilowatts (day/night)	Frequency	Expiration date of license
Tucson, AZ	KCUB (AM)	B	N/A	1	1290 kHz	10/1/2013
	KHYT (FM)	C	620	82	107.5 MHz	10/1/2013
	KIIM - FM	C	621	90	99.5 MHz	10/1/2005
	KSZR (FM)	A	93	6	97.5 MHz	10/1/2013
	KTUC (AM)	C	N/A	1	1400 kHz	10/1/2013
Tuscaloosa, AL	WBEI(FM)	C2	221	22.5	101.7 MHz	4/1/2012
	WDGM(FM)	C3	100	25	99.1 MHz	4/1/2012
	WFFN(FM)	C2	256	17.5	95.3 MHz	4/1/2012
	WJRD(AM)	B	N/A	20.0/1.0	1150 kHz	4/1/2012
	WTSK(AM)	D	N/A	5.0/0.036	790 kHz	4/1/2012
	WTUG-FM	C1	299	100	92.9 MHz	4/1/2012
Wilkes-Barre/Scranton, PA	WARM (AM)	B	N/A	5	590 kHz	8/1/2006
	WBHT (FM)	A	336	0.5	97.1 MHz	8/1/2006
	WBSX (FM)	B	407	6.3	97.9 MHz	8/1/2006
	WSJR (FM)	A	207	1.45	93.7 MHz	8/1/2006
	WBHD (FM)	A	308	0.6	95.7 MHz	8/1/2006
	WMGS (FM)	B	422	5.3	92.9 MHz	8/1/2006
Worcester, MA	WORC - FM	A	125	1.87	98.9 MHz	4/1/2006
	WWFX (FM)	A	146	2.85	100.1 MHz	4/1/2006
	WXLO (FM)	B	172	37	104.5 MHz	4/1/2006

*Transfers or Assignments of Licenses*

The Communications Act prohibits the assignment of a broadcast license or transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to grant approval, the FCC considers a number of factors pertaining to the licensee (and proposed licensee), including:

compliance with the various rules and policies limiting common ownership of media properties in a given market;

the character of the licensee and those persons holding attributable interests in the licensee; and

compliance with the Communications Act's limitations on alien ownership, as well as compliance with other FCC regulations and policies.

To obtain FCC consent to assign a broadcast license or transfer control of a broadcast licensee, appropriate applications must be filed with the FCC. If the application involves a substantial change in ownership or control, the application must be placed on public notice for not less than 30 days during which time interested parties, including listeners, advertisers and competitors, may file petitions to deny or other objections against the application. These types of petitions are filed from time to time with respect to proposed acquisitions. Informal objections to assignment and transfer of control applications may be filed at any time up until the FCC acts on the application. Once the FCC staff grants an application, interested parties may seek reconsideration of that grant for 30 days, after which time the FCC may for another ten days reconsider the grant of the FCC staff on the FCC's own motion. If the application does not involve a substantial change in ownership or control, it is a pro forma application. The pro forma application is nevertheless subject to having informal objections filed against it. When passing on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be served by an assignment or transfer of the broadcast license to any party other than the assignee or transferee specified in the application.

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### *Multiple Ownership Rules*

The FCC rules impose specific limits on the number of commercial radio stations an entity can own in a particular geographic area. These local radio ownership rules preclude us from acquiring certain stations we might otherwise seek to acquire. The rules also effectively prevent us from selling stations in an area to a buyer that has reached its ownership limit in the market unless the buyer divests other stations. The local radio ownership rules are as follows:

in markets with 45 or more radio stations, ownership is limited to eight commercial stations, no more than five of which can be either AM or FM;

in markets with 30 to 44 radio stations, ownership is limited to seven commercial stations, no more than four of which can be either AM or FM;

in markets with 15 to 29 radio stations, ownership is limited to six commercial stations, no more than four of which can be either AM or FM; and

in markets with 14 or fewer radio stations, ownership is limited to five commercial stations or no more than 50% of the market's total, whichever is lower, and no more than three of which can be either AM or FM.

On June 2, 2003, the FCC concluded an omnibus rulemaking proceeding in which it examined all broadcast ownership rules, including the local radio ownership rule, the broadcast-newspaper ownership rule, the radio-television cross-ownership rule, the local television ownership rule, the national television ownership rule and the dual network rule. With respect to radio, the FCC retained the specific limits on the number of commercial radio stations an entity can own in a particular geographic market. The FCC, however, changed the way it defines the relevant geographic market and counts the number of stations in that market. The FCC abandoned the signal contour method of defining the market for radio stations that are located in areas where Arbitron ranks stations. These geographic areas are called Arbitron Metros. Under the new rules, the FCC determines the number of radio stations in an Arbitron Metro, for purposes of determining the ownership limit, by counting all commercial and non-commercial radio stations licensed to communities within the Arbitron Metro, plus all radio stations licensed to communities located outside of the Metro but treated by Arbitron as home to the Metro. Unlike under the previous rules, both commercial and non-commercial stations are counted in determining the number of stations in a market. The FCC uses the same methodology to determine the number of stations that a single company is deemed to own or control, directly or by attribution.

For radio stations located outside of an Arbitron Metro, the FCC will continue to use its previous signal contour-based methodology, with two modifications. The FCC also initiated a new rulemaking proceeding to develop a new method of defining markets located outside of Arbitron Metros. We own a few radio stations in unrated markets. We do not believe that the FCC's rule changes as they apply to unrated markets will have any material effect on our business plan.

The FCC's rule changes as they apply to radio stations in Arbitron Metros have several potential adverse effects. In some markets, the new rules have the effect of both (i) decreasing the number of radio stations deemed to be in the market overall, thereby lowering the applicable ownership tier, and (ii) increasing the number of radio stations that we are deemed to own in the market. For example, the number of overall stations in some of our markets will be reduced from 45 or more to fewer than 45, thereby reducing the applicable ownership limit from eight radio stations, no more than five of which may be AM or FM, to seven radio stations, no more than four of which may be AM or FM. In addition, in several markets, we will be deemed to own or control more radio stations than we were deemed to own or control under the old rules.

Our existing station portfolio exceeds the applicable ownership limit under the FCC's new rules by up to eleven stations in seven markets. Under the new rules, however, we will not be required to divest existing owned stations in order to come into compliance with the new limits. Instead, existing ownership combinations are grandfathered. We would be required to divest stations to comply with the existing rule if there is a

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substantial change in control (as defined under the FCC's rules and policies) of the Company or we attempt to acquire additional stations in the market. We would also not be permitted to transfer grandfathered clusters to a third party, unless the third party is a small business as defined by the FCC.

Under the FCC's current rules, radio stations that are operated under local marketing agreements may be treated as owned for purposes of the local radio ownership limit. See Time Brokerage. The new rules extend this treatment to certain joint sales agreements. One of our existing local marketing agreements does not comply with the new local radio ownership rule. Unlike existing ownership combinations, non-compliant joint sales agreements and local marketing agreements are not permanently grandfathered, but must be terminated, if non-compliant, no later than September 3, 2006.

The FCC also eliminated the cross-ownership rules that limited or prohibited radio station ownership by the owner of television stations or a daily newspaper in the same market and replaced these rules with a new cross-media rule. Under the new cross-media rule, the following limits apply:

in markets with three or fewer TV stations, no cross-ownership is permitted among TV, radio and newspapers, although a company may request a waiver if it can show that the TV station does not serve the area served by the cross-owned property (i.e. the radio station or newspaper);

in markets with between four and eight TV stations, combinations are limited to one of the following:

a daily newspaper, one TV station, and up to half of the radio station limit for that market, or

a daily newspaper, and up to the radio station limit for that market, but no TV stations, or

two TV stations (if permissible under the local TV ownership rule), and up to the radio station limit for that market, but no daily newspapers.

in markets with nine or more TV stations, the FCC eliminated the newspaper-broadcast cross-ownership ban and the television-radio cross-ownership ban.

The new rules were to become effective on September 4, 2003, but were stayed by the U.S. Court of Appeals for the Third Circuit on September 3, 2003 pending the outcome of appeals filed by several entities. A number of parties also filed requests with the FCC seeking reconsideration of certain aspects of the new rules. On September 3, 2004, the Third Circuit issued an Order granting in part a request filed by the FCC to partially lift the court's stay. The Order permitted the new local radio ownership rules adopted June 2, 2003 to go into effect. A number of parties have urged Congress to undertake a comprehensive review of the Communications Act, including its ownership provisions, and proposals may be introduced in Congress which could result in still different ownership rules affecting, among other matters, the number of stations that may be owned in a common geographic area and whether existing combinations would be considered as grandfathered.

At this time, it is uncertain whether any potential congressional proposals will become law or what effect such legislation will have on us and our ability to acquire additional stations. If a requirement that companies divest stations to come into compliance with the Arbitron-based geographic market approach for defining local radio markets were to become law, we would be required to divest up to eleven stations in seven markets. We have evaluated the potential impact of this divestiture requirement and we believe that the required divestitures would not have a materially adverse effect on us as a whole, because we could come into compliance by divesting underperforming or technically inferior stations, and divestitures may have the effect of leveling the competitive playing field in markets where existing competitors own radio stations in excess of the new limits. In addition, the requirement that other companies divest stations may create acquisition opportunities for us in other markets.

### *Ownership Attribution Rules*

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The FCC's multiple ownership rules apply to attributable interests in broadcast stations or daily newspapers held by an individual, corporation, partnership or other association. In the case of corporations

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directly or indirectly controlling broadcast licenses, the interests of officers, directors and those who, directly or indirectly, have the right to vote 5% or more of the corporation's voting stock are generally attributable. Some passive investors are attributable only if they hold 20% or more of the corporation's voting stock. However, all minority shareholder interests (other than interests subject to the debt/equity rule discussed in the next paragraph) are exempt from attribution if a single shareholder controls a majority of the voting shares in the corporation. Although the FCC had previously revoked the single majority shareholder exemption, on December 3, 2001, following a court decision that found the FCC's elimination of the exemption in the context of the FCC's cable ownership attribution rules to be arbitrary and capricious, the FCC suspended enforcement of the elimination of the exemption pending the outcome of a rulemaking to reconsider this matter.

Notwithstanding the presence of a single majority shareholder, the FCC will attribute the interests of various creditors or investors in a corporation under the so-called "debt/equity plus" rule. Under this rule, a major programming supplier or a same-market owner will be treated as an attributable owner of a station if the supplier or owner holds debt or equity, or both, in the station that is greater than 33% of the value of the station's total debt plus equity. A major programming supplier includes any programming supplier that provides more than 15% of the station's weekly programming hours. A same-market owner includes any attributable owner of a media company, including broadcast stations, cable television, and newspapers, located in the same market as the station, but only if the owner is attributable under an FCC attribution rule other than the debt/equity plus rule.

The attribution rules could limit the number of radio stations we may acquire or own in any market and may also limit the ability of various potential buyers of stations owned by us from being able to purchase some or all of the stations that they might otherwise wish to purchase from us. To address the possibility that attributable interests held by minority shareholders could limit our ability to acquire stations, our certificate of incorporation provides that our capital stock is subject to redemption by action of our board of directors to the extent necessary to bring us into compliance with the FCC's ownership rules.

### *Alien Ownership Rules*

The Communications Act prohibits the issuance or holding of broadcast licenses by aliens, including any corporation if more than 20% of its capital stock is collectively owned or voted by aliens. In addition, the FCC may prohibit any corporation from holding a broadcast license if the corporation is directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by aliens, if the FCC finds that the prohibition is in the public interest. The FCC has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such corporation, and the FCC has made such affirmative findings only in limited circumstances. These restrictions apply in similar fashion to other forms of businesses and organizations, including partnerships and limited liability companies. Our certificate of incorporation provides that our capital stock is subject to redemption by action of our board of directors to the extent necessary to bring us into compliance with the Communications Act or FCC regulations or prevent the loss of any of our FCC licenses.

### *Time Brokerage*

Over the years, a number of radio stations have entered into what have commonly been referred to as time brokerage agreements or local marketing agreements. While these agreements may take varying forms, under a typical time brokerage agreement, separately owned and licensed radio stations agree to enter into cooperative arrangements of varying sorts, subject to compliance with the requirements of antitrust laws and with the FCC's rules and policies. Under these arrangements, separately owned stations could agree to function cooperatively in programming, advertising sales and similar matters, subject to the requirement that the licensee of each station maintain independent control over the programming and operations of its own station. One typical type of time brokerage agreement is a programming agreement between two separately owned radio stations serving a common service area, whereby the licensee of one station provides substantial portions of the broadcast programming for airing on the other licensee's station, subject to ultimate editorial and other controls being exercised by the latter licensee, and sells advertising time during those program segments.

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The FCC's rules provide that a radio station that brokers more than 15% of its weekly broadcast time on another station serving the same market will be considered to have an attributable ownership interest in the brokered station for purposes of the FCC's multiple ownership rules. As a result, in a market where we own a radio station, we would not be permitted to enter into a time brokerage agreement with another local radio station in the same market that we could not own under the local ownership rules, unless our programming on the brokered station constituted 15% or less of the other local station's programming time on a weekly basis. FCC rules also prohibit a radio station from duplicating more than 25% of its programming on another station in the same broadcast service (*i.e.*, AM-AM or FM-FM) directly or through a time brokerage agreement where the brokered and brokering stations that it owns or programs serve substantially the same area.

The FCC's new ownership rules extend ownership attribution to certain joint sales agreements as well. See *Multiple Ownership Rules*. Under a joint sales agreement, one radio station sells the commercial time on a separately owned and licensed radio station, but does not provide programming as under a time brokerage or local marketing agreement. A radio station that sells more than 15% of the advertising time of another radio station in the same market will be considered to have an attributable ownership interest in the other station for purposes of the FCC's multiple ownership rules. In its September 3, 2004 Order, the Third Circuit lifted the stay on this new requirement making such joint sales agreements attributable. As a result, we will no longer be able to enter into a joint sales agreement providing for the sale of more than 15% of the advertising time of another radio station that we could not own. Under the FCC's new ownership rules, companies have two years to terminate non-compliant time brokerage and joint sales agreements or otherwise come into compliance with the new limits. We do not believe that termination of these agreements or our actions to come into compliance with the new rules with respect to these agreements will have a material impact on our business or our results of operations.

### *Programming and Operation*

The Communications Act requires broadcasters to serve the public interest. Since 1981, the FCC gradually has relaxed or eliminated many of the more formalized procedures it developed to promote the broadcast of types of programming responsive to the needs of a station's community of license. However, licensees continue to be required to present programming that is responsive to community problems, needs and interests and to maintain records demonstrating responsiveness. Complaints from listeners concerning a station's programming will be considered by the FCC when it evaluates the licensee's renewal application, although listener complaints may be filed and considered at any time and must be maintained in the station's public file.

Stations also must pay regulatory and application fees and follow various FCC rules that regulate, among other things, political advertising, the broadcast of obscene or indecent programming, the advertisement of casinos and lotteries, sponsorship identification and technical operations, including limits on radio frequency radiation.

The FCC adopted new equal employment opportunity (EEO) rules for broadcasters which became effective March 10, 2003. The new rules are outreach and recruitment focused and require that broadcasters: (1) widely disseminate information for each full-time job vacancy, except for vacancies filled in exigent circumstances; (2) provide notification to community and recruitment organizations that have requested information on all or selected job vacancies; and (3) participate in longer-term recruitment initiatives, such as job fairs, internships, scholarships and EEO/anti-discrimination training programs. Broadcasters remain subject to the FCC's anti-discrimination policy but the use of minority or women-targeted recruitment sources is no longer mandated. The new rules also require a broadcaster to keep extensive internal records regarding its recruitment efforts including information regarding its recruitment sources and interviewees, notification to requesting community groups and specifics regarding participation in the longer-term initiatives. Broadcasters must also prepare and place in the public inspection file (and on their website if they maintain one) an annual EEO public file report that details recruitment efforts and interviewee totals, the referral sources used for each vacancy, the community groups notified, and specifics regarding participation in longer-term recruitment initiatives. Broadcasters are subject to an FCC mid-term review in the fourth year of the license term and an FCC review as part of the license renewal

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application, both requiring the submission of the annual EEO public file report for the preceding two years with a statement certifying that the broadcaster's reports are accurate. The FCC is expected to address the annual workforce employment information and filing requirements in a separate Report and Order. Also pending is the FCC's review of recruitment requirements for part-time vacancies and it issued a Further Notice of Proposed Rulemaking in conjunction with the new rules to solicit public comment on this issue.

The FCC has issued a decision holding that a broadcast station may not deny a candidate for federal political office a request for broadcast advertising time solely on the grounds that the amount of time requested is not the standard length of time which the station offers to its commercial advertisers. The effect that this FCC decision will have on our programming and commercial advertising is uncertain at this time.

Periodically, we may be required to obtain special temporary authority (STA) from the FCC to operate one or more of the stations in a manner different from the licensed parameters so that we can complete scheduled construction or maintenance or so that we may repair damaged or broken equipment without interrupting service. We are currently operating some stations under STAs in the ordinary course of business.

In the ordinary course of business, we have received complaints or the FCC has initiated inquiries about whether we have broadcast indecent programming or violated technical requirements.

### *Indecency Regulation*

The FCC's rules prohibit the broadcast of obscene material at any time and indecent material between the hours of 6 am and 10 pm. Broadcasters risk violating the prohibition on the broadcast of indecent material because of the vagueness of the FCC's definition of indecent material, coupled with the spontaneity of live programming. The FCC in the last few years has stepped up its enforcement activities as they apply to indecency, and has threatened to initiate license revocation or license renewal proceedings against broadcast licensees for a category of undefined serious indecency violations. The FCC has also expanded the breadth of indecency regulation to include material that could be considered blasphemy, personally reviling epithets, profanity and vulgar or coarse words amounting to a nuisance. Legislation has also been introduced in Congress that would increase the penalties for broadcasting indecent programming, and depending on the number of violations engaged in, would potentially subject broadcasters to license revocation, renewal or qualifications proceedings in the event that they broadcast indecent material. We have a few outstanding indecency proceedings against our stations. The pendency of these proceedings, as well as the FCC's more vigorous enforcement of its indecency rules, may encourage third parties to challenge our license renewal or assignment applications. Proposals to increase the fines that may be imposed for the broadcast of indecent programming were introduced before Congress in 2004 and 2005 but were not adopted.

### *Proposed and Recent Changes*

Congress, the FCC or other federal agencies may in the future consider and adopt new laws, regulations and policies regarding a wide variety of matters that could, directly or indirectly, affect the operation, ownership and profitability of our radio stations, result in the loss of audience share and advertising revenue for our radio stations, and affect our ability to acquire additional radio stations or finance acquisitions. These matters include:

changes in the FCC's ownership rules and policies, including changes to the local radio ownership rules and the limitations on the cross-ownership of radio and other media (see Multiple Ownership Rules);

proposals to increase regulatory fees or to impose spectrum use or other fees on FCC licensees;

technical and frequency allocation matters and changes to broadcast technical requirements;

proposals to restrict or prohibit the advertising of beer, wine and other alcoholic beverages;

proposals to restrict or prohibit the advertising of on-line casinos or on-line sports-betting services;





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proposals to limit the tax deductibility of advertising expenses by advertisers;

restatement in revised form of FCC's equal employment opportunity rules and revision to rules relating to political broadcasting;

proposals to regulate or prohibit payments to stations by independent record promoters, record labels and others for the inclusion of specific content in broadcast programming; and

proposals to shorten the term of broadcasting licenses from eight to three years.

The FCC selected In-Band, On-Channel technology as the exclusive standard for digital services for terrestrial AM and FM broadcasters. The FCC has authorized the commencement of hybrid transmissions simultaneous transmissions in both analog and digital pending the adoption of formal licensing and service rules, using In-Band, On-Channel systems for FM stations and AM stations (on a daytime only basis). Digital audio broadcasting's advantages over traditional analog broadcasting technology include improved sound quality and the ability to offer a greater variety of auxiliary services. In-Band, On-Channel technology will permit radio stations to transmit radio programming in both analog and digital formats, and eventually in digital only formats, using the bandwidth that the radio station is currently licensed to use. It is unclear what formal licensing and service rules the FCC will adopt regarding digital audio broadcasting and what effect these regulations will have on our business or the operations of our stations. The Company has recently committed to convert 60 of its radio stations to digital broadcasting technology over the next several years.

In January 2000, the FCC created a new low power FM radio service. The new low power stations operate at a maximum power of between ten and 100 watts in the existing FM commercial and non-commercial band. Low power stations may be used by governmental and non-profit organizations to provide non-commercial educational programming or public safety and transportation radio services. No existing broadcaster or other media entity is permitted to have an ownership interest or enter into any program or operating agreement with any low power FM station. During the first two years of the new service, applicants must be based in the area that they propose to serve. Applicants are not permitted to own more than one station nationwide during the initial two-year period. After the initial two-year period, entities are allowed to own up to five stations nationwide, and after three years, the limit will be raised to ten stations nationwide. A single person or entity may not own two low power stations whose transmitters are less than seven miles from each other. The authorizations for the new stations are not transferable. In April 2001, the FCC adopted a third channel interference protection standard, and prohibited any applicant from obtaining a low power FM station who has previously operated a station without a license.

At this time it is difficult to assess the competitive impact of these new stations. Although the new low power stations must comply with certain technical requirements aimed at protecting existing FM radio stations from interference, we cannot be certain of the level of interference that low power stations will cause after they begin operating. Moreover, if low power FM stations are licensed in the markets in which we operate, the low power stations may compete with us for listeners. The low power stations may also limit our ability to obtain new licenses or to modify our existing facilities, or cause interference to areas of existing service that are not protected by the FCC's rules, any of which may have a material adverse effect on our business.

We cannot predict what other matters might be considered in the future by the FCC or Congress, nor can we judge in advance what impact, if any, the implementation of any of these proposals or changes might have on our business.

*Federal Antitrust Considerations*

The Federal Trade Commission and the Department of Justice, which evaluate transactions to determine whether those transactions should be challenged under the federal antitrust laws, have been increasingly active recently in their review of radio station acquisitions, particularly where an operator proposes to acquire additional stations in its existing markets.

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For an acquisition meeting certain size thresholds, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules promulgated thereunder, require the parties to file Notification and Report Forms with the Federal Trade Commission and the Department of Justice and to observe specified waiting period requirements before consummating the acquisition. During the initial 30-day period after the filing, the agencies decide which of them will investigate the transaction. If the investigating agency determines that the transaction does not raise significant antitrust issues, then it will either terminate the waiting period or allow it to expire after the initial 30 days. On the other hand, if the agency determines that the transaction requires a more detailed investigation, then, at the conclusion of the initial 30-day period, it will issue a formal request for additional information. The issuance of a formal request extends the waiting period until the 20th calendar day after the date of substantial compliance by all parties to the acquisition. Thereafter, the waiting period may only be extended by court order or with the consent of the parties. In practice, complying with a formal request can take a significant amount of time. In addition, if the investigating agency raises substantive issues in connection with a proposed transaction, then the parties frequently engage in lengthy discussions or negotiations with the investigating agency concerning possible means of addressing those issues, including persuading the agency that the proposed acquisition would not violate the antitrust laws, restructuring the proposed acquisition, divestiture of other assets of one or more parties, or abandonment of the transaction. These discussions and negotiations can be time consuming, and the parties may agree to delay completion of the acquisition during their pendency.

At any time before or after the completion of a proposed acquisition, the Federal Trade Commission or the Department of Justice could take action under the antitrust laws as it considers necessary or desirable in the public interest, including seeking to enjoin the acquisition or seeking divestiture of the business or other assets acquired. Acquisitions that are not required to be reported under the Hart-Scott-Rodino Act may be investigated by the Federal Trade Commission or the Department of Justice under the antitrust laws before or after completion. In addition, private parties may under certain circumstances bring legal action to challenge an acquisition under the antitrust laws.

As part of its increased scrutiny of radio station acquisitions, the Department of Justice has stated publicly that it believes that commencement of operations under time brokerage agreements, local marketing agreements, joint sales agreements and other similar agreements customarily entered into in connection with radio station transfers prior to the expiration of the waiting period under the Hart-Scott-Rodino Act could violate the Hart-Scott-Rodino Act. In connection with acquisitions subject to the waiting period under the Hart-Scott-Rodino Act, so long as the Department of Justice policy on the issue remains unchanged, we would not expect to commence operation of any affected station to be acquired under a time brokerage agreement, local marketing agreement or similar agreement until the waiting period has expired or been terminated.

## **Environmental**

As the owner, lessee, or operator of various real properties and facilities, we are subject to various federal, state, and local environmental laws and regulations. Historically, compliance with these laws and regulations has not had a material adverse effect on our business. There can be no assurance, however, that compliance with existing or new environmental laws and regulations will not require us to make significant expenditures of funds.

## **Seasonality**

In the radio broadcasting industry, seasonal revenue fluctuations are common and are due primarily to variations in advertising expenditures by local and national advertisers. Typically, revenue is lowest in the first calendar quarter of the year and highest in the second and fourth calendar quarters of the year.

## **Employees**

As of December 31, 2005, we had 2,184 full-time employees and 1,244 part-time employees. None of these employees is covered by collective bargaining agreements. We consider our relations with our employees generally to be good.

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We employ several on-air personalities in our respective markets. We enter into employment agreements with certain on-air personalities in order to protect our interests in these employee relationships. We do not believe that the loss of any one of these on-air personalities would have a material adverse effect on our consolidated financial condition or results of operations.

### **Available Information**

Our Internet address is [www.citadelbroadcasting.com](http://www.citadelbroadcasting.com). You may obtain through our Internet website, free of charge, access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. These reports will be available as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (SEC). You may read and copy any materials we filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, DC, 20549. (You may call 1-800-SEC-0330 for more information).

### **ITEM 1A. RISK FACTORS**

The following factors (in addition to others) could have a material impact on our business:

#### ***Decreased spending by advertisers can adversely affect our advertising revenue.***

Since virtually all of our revenue is generated from the sale of local, regional and national advertising for broadcast on our radio stations, a recession or downturn in the United States economy could have an adverse effect on us as advertisers generally reduce their spending during economic downturns. In addition, because a substantial portion of our revenue is derived from local advertisers, our ability to generate advertising revenue in specific markets could be adversely affected by local or regional economic downturns. For example, in 2001, due to weakness in the general advertising sector and in our markets, which was further exacerbated by the events of September 11, our pro forma net broadcasting revenue declined 8.5%.

#### ***We may lose audience share and advertising revenue to competing radio stations or other types of media competitors.***

We operate in a highly competitive industry. Our radio stations compete for audiences and advertising revenue with other radio stations and station groups, as well as with other media such as broadcast television, newspapers, magazines, cable television, satellite television, satellite radio, outdoor advertising, the Internet, hand held programmable devices, such as IPODs and direct mail. Audience ratings and market shares are subject to change. Any adverse change in a particular market, or adverse change in the relative market positions of the stations located in a particular market could have a material adverse effect on our revenue or ratings, could require increased promotion or other expenses in that market, and could adversely affect our revenue in other markets. Other radio broadcasting companies may enter the markets in which we operate or may operate in the future. These companies may be larger and have more financial resources than we have. Our radio stations may not be able to maintain or increase their current audience ratings and advertising revenue. In addition, from time to time, other stations may change their format or programming, a new station may adopt a format to compete directly with our stations for audiences and advertisers, or stations might engage in aggressive promotional campaigns. These tactics could result in lower ratings and advertising revenue or increased promotion and other expenses and, consequently, lower earnings and cash flow for us. Audience preferences as to format or programming may also shift due to demographic or other reasons. Any failure by us to respond, or to respond as quickly as our competitors, could have an adverse effect on our business and financial performance. We cannot assure you that we will be able to maintain or increase our current audience ratings and advertising revenue.

#### ***If we lose key personnel, including on-air talent, our business could be disrupted and our financial performance could suffer.***

Our business depends upon the continued efforts, abilities and expertise of our executive officers, primarily our Chairman and Chief Executive Officer, Farid Suleman. We believe that the unique combination of skills and

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experience possessed by Mr. Suleman would be difficult to replace, and his loss could have a material adverse effect on us, including impairing our ability to execute our business strategy. Mr. Suleman does not have a formal employment agreement. Additionally, our radio stations employ or independently contract with several on-air personalities and hosts of syndicated radio programs with significant loyal audiences in their respective broadcast markets. These on-air personalities are sometimes significantly responsible for the ranking of a station, and for the ability of the station to sell advertising. We cannot assure you that these individuals will remain with our radio stations or will retain their audiences.

***If we cannot renew our FCC licenses, our business will be impaired.***

Our business depends upon maintaining our broadcasting licenses issued by the FCC, which are issued currently for a maximum term of eight years and are renewable. Interested parties may challenge a renewal application. On rare occasions, the FCC has revoked licenses, not renewed them, or renewed them only with significant qualifications, including renewals for less than a full term. We cannot assure you that our pending or future renewal applications will be approved, or that the renewals will not include conditions or qualifications that could adversely affect our operations. If we fail to renew, or renew with substantial conditions or modifications (including renewing one or more of our licenses for a term of fewer than eight years) any of our licenses, it could prevent us from operating the affected station and generating revenue from it. Moreover, governmental regulations and policies may change over time and the changes may have a material adverse impact upon our business, financial condition and results of operations.

***We could experience delays in expanding our business, be prevented from making acquisitions or be required to divest radio stations due to antitrust laws and other legislative and regulatory considerations.***

The Federal Trade Commission, the United States Department of Justice and the FCC carefully review our proposed business acquisitions and dispositions under their respective regulatory authority, focusing on the effects on competition, the number of stations owned in a market and the effects on concentration of market revenue share. Any delay, prohibition or modification required by regulatory authorities could adversely affect the terms of a proposed transaction or could require us to modify or abandon an otherwise attractive opportunity.

The radio broadcasting industry is subject to extensive and changing federal regulation. Among other things, the Communications Act of 1934, as amended, which we refer to as the Communications Act, and FCC rules and policies limit the number of broadcasting properties that any person or entity may own, directly or by attribution, in any market and require FCC approval for transfers of control and assignments of licenses. The filing of petitions or complaints against us or any FCC licensee from which we acquire a station could result in the FCC delaying the grant of, or refusing to grant or imposing conditions on its consent to the assignment or transfer of control of licenses. The Communications Act and FCC rules and policies also impose limitations on non-U.S. ownership and voting of our capital stock. On June 2, 2003, the FCC concluded an omnibus rulemaking proceeding in which it examined all broadcast ownership rules, including the local radio ownership rule, the broadcast-newspaper ownership rule, the radio-television cross-ownership rule, the local television ownership rule, the national television ownership rule and the dual network rule. The FCC made significant changes to the local radio ownership rule and the way that it reviews radio station transactions. As a result of these changes, our existing station portfolio exceeds the applicable ownership limit in several markets. Existing ownership combinations, however, are grandfathered, meaning the FCC will not require us to divest stations that we currently own in order to come into compliance with the new rules. We would be required to divest stations to comply with the existing rule if there is a substantial change in control (as defined under the FCC's rules and policies) of the Company or we attempt to acquire additional stations in the market. We would also not be permitted to transfer grandfathered clusters to a third party, unless the third party is a small business as defined by the FCC. The new rules will limit our ability to acquire radio stations that we would have been permitted to acquire under the old rules. Various aspects of these rule changes were appealed by a number of different entities. The rules were to become effective on September 4, 2003, but were stayed by the U.S. Court of Appeals for the Third Circuit on September 3, 2003. On September 3, 2004, the Third Circuit issued an Order granting in

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part a request filed by the FCC to partially lift the court's stay. The Order permitted the new local radio ownership rules adopted June 2, 2003 to go into effect. A number of parties also filed requests with the FCC seeking reconsideration of certain aspects of the new rules, including, without limitation, the grandfathering provisions discussed above. A number of parties have urged Congress to undertake a comprehensive review of the Communications Act, including its ownership provisions, and proposals may be introduced in Congress which could result in still different ownership rules affecting, among other matters, the number of stations that may be owned in a common geographic area and whether existing combinations would be considered as grandfathered.

### *There are risks associated with our pending business combination with the ABC Radio stations and ABC Radio Network.*

Our pending business combination with the ABC Radio stations and ABC Radio Network involves risks and uncertainties. There can be no assurance as to the timing of the closing of the merger, or whether the merger will close at all. Factors that could cause the merger to be delayed or to fail to close at all include:

the failure to obtain governmental approvals of the transaction on the proposed terms and schedule, including antitrust approvals and the effectiveness of certain filings with the SEC;

if the FCC deems there to be a substantial change in control (as defined under the FCC's rules and policies) as a result of the transaction, the Company may be required to divest up to eleven stations in seven markets in order to obtain FCC approval to consummate the merger;

the failure to receive required tax rulings or tax opinions; and

a material adverse change in the business, assets, financial condition or results of operations of the Company or TWDC.

The ABC Merger Agreement contains certain termination rights and provides that, upon the termination of the ABC Merger Agreement under specified circumstances, we may be required to pay to TWDC a termination fee of \$81 million.

The ABC Radio Merger Agreement imposes certain restrictions on our ability to conduct acquisitions and make dispositions prior to the closing. In light of this pending merger, the Company does not currently intend to make any significant acquisitions.

Additionally, the Company is limited in our ability to issue equity instruments prior to the closing.

In connection with the close of the transaction, the Company's financial leverage will be substantially increased. This increased indebtedness could limit our ability to

compete with competitors that are better capitalized than us; and

react to changing market conditions, changes in our industry and economic downturns.

***In order to remain competitive, we must respond to changes in technology, services and standards that characterize our industry.***

The radio broadcasting industry is subject to technological change, evolving industry standards and the emergence of new media technologies. We may not have the resources to acquire new technologies or to introduce new services that could compete with these new technologies. Several new media technologies are being developed, including the following:

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audio programming by cable television systems, direct broadcast satellite systems, personal communications systems, Internet content providers and other digital audio broadcast formats;

satellite digital audio radio service, which is provided by two companies offering national satellite radio services, including numerous niche formats, with sound quality comparable to that of compact discs;

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In-Band On-Channel digital radio, which could improve the quality of existing AM and FM stations, including stations owned by us; and

low-power FM radio, which could result in additional FM radio broadcast outlets designed to serve small, localized areas.

*We are controlled by affiliates of Forstmann Little & Co., whose interests may conflict with those of our other stockholders.*

Forstmann Little & Co. Equity Partnership-VI, L.P., Forstmann Little & Co. Equity Partnership-VII, L.P., Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VII, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VIII, L.P., which we refer to as the Forstmann Little partnerships, own approximately 67% of our outstanding common stock as of February 28, 2006. Accordingly, they will be able to:

elect our entire board of directors;

control our management and policies; and

determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

They will also be able to prevent or cause a change in control of us and amend our certificate of incorporation and bylaws at any time.

Theodore J. Forstmann is the senior partner of Forstmann Little & Co. Mr. Forstmann serves as a member of our board of directors. Our chairman and chief executive officer Farid Suleman is a special limited partner of Forstmann Little & Co. and also provides advice and consulting services to Forstmann Little & Co. Two other directors, Michael A. Miles and J. Anthony Forstmann are special limited partners of Forstmann Little & Co. Mr. Miles also serves on the Forstmann Little advisory board and is an investor in certain portfolio companies of Forstmann Little. J. Anthony Forstmann is the brother of Theodore J. Forstmann. Another director, David Checketts, is a director of IMG Worldwide, Inc. and may perform consulting and provide other services to IMG from time to time. Forstmann Little & Co. owns a majority of the outstanding equity in IMG. As a result of these relationships, when conflicts between the interests of the Forstmann Little partnerships and the interests of our other stockholders arise, these directors and officers may not be disinterested. Under Delaware law, although our directors and officers have a duty of loyalty to us, transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as the material facts as to the director's or officer's relationship or interest and as to the transaction are disclosed to our board of directors and a majority of our disinterested directors approves the transaction, or the transaction is otherwise fair to us.

The interests of the Forstmann Little partnerships may conflict with the interests of our other stockholders.

*Our stock price could be volatile and could drop unexpectedly.*

Our common stock has been publicly traded since August 2003. The market price of our common stock has been subject to fluctuations since the date of our initial public offering. The stock market has from time to time experienced price and volume fluctuations that have affected the market prices of securities. As a result, the market price of our common stock could materially decline, regardless of our operating performance.

*Our failure to comply under the Sarbanes-Oxley Act of 2002 could cause a loss of confidence in the reliability of our financial statements.*

We have undergone a comprehensive effort to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Compliance was required as of December 31, 2004. This effort included documenting and testing our internal



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controls. As of December 31, 2005, we did not identify any material weaknesses in our internal controls as defined by the Public Company Accounting Oversight Board. In future years, there are no assurances that we will not have material weaknesses that would be required to be reported or that we will be able to comply with the reporting deadline requirements of Section 404. A reported material weakness or the failure to meet the reporting deadline requirements of Section 404 could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. This loss of confidence could cause a decline in the market price of our stock.

### ***We have indebtedness that could limit our ability to grow and compete.***

Our financial leverage and, as a result, our debt service obligations, may have an impact on our financial results and operations, including limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt payments or other corporate purposes.

As of December 31, 2005, we had indebtedness of approximately \$652.5 million, consisting of \$330.0 million of convertible subordinated notes and \$322.5 million under our credit facility. Under our credit facility, as of December 31, 2005, we may borrow up to an additional \$277.5 million under the revolving portion of our credit facility, excluding \$2.2 million in outstanding letters of credit. We may reborrow under our revolving credit facility as needed to fund our working capital needs, for general corporate purposes and to fund the acquisitions of additional radio stations.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES AND FACILITIES**

The types of properties required to support each of our radio stations include offices, studios, transmitter sites and antenna sites. A station's studios are generally housed with its offices in business districts. The transmitter sites and antenna sites are generally located so as to provide maximum market coverage.

We currently own studio facilities in 22 of our markets and own transmitter and antenna sites in 45 of our markets. We lease the remaining studio and office facilities, including office space in Las Vegas, NV, which is not related to the operations of a particular station, as well as the remaining transmitter and antenna sites. We do not anticipate any significant difficulties in renewing any facility leases or in leasing alternative or additional space, if required. We own substantially all of our other equipment, consisting principally of transmitting antennae, transmitters, studio equipment and general office equipment.

### **ITEM 3. LEGAL PROCEEDINGS**

In a complaint filed on June 5, 2003 with the United States District Court for the District of Connecticut, the Company was named as one of numerous defendants in litigation seeking monetary damages arising from the injuries and deaths of 8 concertgoers at a Rhode Island nightclub. The complaint (*Henault v. American Foam Corp., et al.*, C.A. No. 03-483-L) contains multiple causes of action, only a small number of which are brought against the Company. The Company's involvement was to advertise the concert on one of its stations and to distribute promotional tickets provided by the organizers. The complaint alleges, among other things, that the organizers and sponsors of the concert failed to control crowd size, failed to obtain pyrotechnic permits, failed to inspect fireproofing at the club and failed to maintain emergency exits in workable condition, which contributed to the injuries and deaths of plaintiffs when pyrotechnic devices on the stage ignited soundproofing materials adjacent to the stage during the concert. The complaint alleges that the Company was a co-sponsor of the concert and asserts claims against the Company based on theories of joint venture liability and negligence. On October 3, 2003, the action was transferred to the United States District Court, District of Rhode Island, where it subsequently was consolidated with suits on behalf of some 240 other concertgoers (in which the Company was

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not sued) for the purposes of pre-trial discovery and motion practice. Since the action was filed, plaintiffs twice have amended their complaint, though the claims against the Company remain substantively the same. On January 27, 2005, the Company filed an Answer to the complaint, substantially denying plaintiffs' allegations against the Company. On February 18, 2005, an identical suit was filed on behalf of one additional concertgoer (Kolasa v. American Foam Corp., et al., C.A. No. 05-070-L). On January 5, 2006, a substantially identical suit was filed on behalf of another concertgoer (Malagrino v. American Foam Corp., et al., C.A. No.06-02-L). The Company believes that plaintiffs' claims against the Company are without merit and intends to defend these claims vigorously.

On or about January 6, 2005, plaintiffs in three other actions related to the February 20, 2003 fire at The Station Guindon et al. v. American Foam Corp. et al. (C.A. No. 03-335-L), Roderiques v. American Foam Corp. et al. (C.A. No. 04-26-L) and Sweet v. American Foam Corp. et al. (C.A. No. 04-56-L) adopted wholesale all of the claims asserted in the action described in the paragraph above, including those against the Company. Plaintiffs' inclusion of the Company as a defendant in these actions was inadvertent and, on or about January 28, 2005, the Guindon plaintiffs and the Company entered into a stipulation whereby plaintiffs dismissed that action as to the Company. On or about February 3, 2005, the Company and plaintiffs in both Roderiques and Sweet entered into stipulations whereby plaintiffs dismissed their respective actions as to the Company.

Several other defendants filed motions to dismiss on a variety of legal grounds, some of which were granted. The Company intends to file a motion for summary judgment on some of the same grounds, as soon as the Court allows such motions to be filed. In the meantime, plaintiffs will be filing shortly a Third Amended Complaint, which is expected to bring in additional parties as defendants before the statute of limitations expires. The Connecticut case was consolidated with other cases filed in federal courts. The judge is expected to enter a scheduling order in the first quarter of 2006 allowing defendants to file motions for summary judgment.

The Company does not believe that the outcome of the litigation regarding the Rhode Island night club matters will have a material adverse impact on its financial position, results of operations or cash flows.

In February 2005, we received a subpoena from the Office of Attorney General of the State of New York as have several other radio broadcasting companies and record companies operating in the State of New York. These subpoenas were issued in connection with the New York Attorney General's investigation of promotional practices involved in record companies' dealings with radio stations. We have cooperated with this investigation and continue to do so. In connection with this investigation, the New York Attorney General's Office has entered into settlement agreements with two record companies, which included both business practice reforms and financial penalties. The New York Attorney General's Office has recently announced that it may take action against a number of radio companies, including us. The FCC has announced increased enforcement activity in the area of sponsorship identification and payola. At this time, it is not possible to determine the outcome of this increased activity.

We are subject to other claims and lawsuits arising in the ordinary course of our business. We believe that none of these legal proceedings would have a material adverse impact on our results of operations, cash flows or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of 2005.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock trades on the New York Stock Exchange under the symbol CDL. The table below sets forth, for the periods indicated, the range of high and low closing sales prices for our common stock as reported by the NYSE.

	Price Range	
	High	Low
<b>Fiscal Year 2004</b>		
First Quarter	\$ 22.28	\$ 16.06
Second Quarter	\$ 19.05	\$ 14.18
Third Quarter	\$ 15.20	\$ 12.42
Fourth Quarter	\$ 16.50	\$ 12.89
<b>Fiscal Year 2005</b>		
First Quarter	\$ 15.52	\$ 13.64
Second Quarter	\$ 14.03	\$ 11.45
Third Quarter	\$ 13.77	\$ 11.27
Fourth Quarter	\$ 14.14	\$ 12.85

**Number of Stockholders**

On February 28, 2006, the last reported sale price of our common stock on the NYSE was \$11.14 per share. Based on information available to us and our transfer agent, we believe that as of March 1, 2006, there were 4,414 holders of our common stock.

**Dividend Policy**

On October 6, 2005, the Company announced that its Board of Directors had approved the commencement of paying a regular quarterly dividend of \$0.18 per share on its common stock beginning with the fourth quarter of 2005. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Our credit facility limits our ability to pay dividends and make distributions to our stockholders.

**Equity Compensation Plan Information**

The following table sets forth, as of December 31, 2005, the number of shares of common stock that are issuable upon the exercise of stock options outstanding under our equity compensation plan, including options held by our Chief Executive Officer that were granted pursuant to a written stock option agreement outside of the stock option plan, the weighted average exercise prices of such securities and the number of securities available for grant under the plan.

Plan Category	(a)	(b)	(c)
	<b>Number of Shares to be Issued Upon</b>	<b>Weighted Average</b>	<b>Number of Securities</b>
	<b>Exercise of Outstanding</b>	<b>Exercise Price of</b>	<b>Remaining Available for</b>
	<b>Option, Warrants and Rights</b>	<b>Outstanding</b>	<b>Future Issuance Under</b>
		<b>Options,</b>	<b>Equity Compensation</b>

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		Warrants and Rights	Plans (excluding Column (a))
Equity Compensation Plans Approved by Shareholders	9,168,641	\$ 10.43	3,699,609
Equity Compensation Plans Not Approved by Shareholders			
None			
Total	9,168,641		3,699,609

**Table of Contents****Purchases of Equity Securities**

The table below summarizes stock repurchase information for the quarter ended December 31, 2005.

**REGISTRANT PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans</b>
October 1, 2005 through October 31, 2005	346,900	\$ 13.92	346,900	\$ 172,305,222
November 1, 2005 through November 30, 2005	1,263,400	13.68	1,263,400	155,024,155
December 1, 2005 through December 31, 2005	1,586,700	13.35	1,586,700	133,837,069
Total	3,197,000	\$ 13.54	3,197,000	

Notes:

1) On June 29, 2004 and November 3, 2004, the Company's board of directors authorized the Company to repurchase up to \$100.0 million and \$300.0 million, respectively, of its outstanding common stock. No assurance can be given as to the time period over which the shares will be repurchased or as to whether and to what extent the share repurchase will be consummated.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the selected historical consolidated financial data below in conjunction with our consolidated financial statements and the accompanying notes. You should also read Management's Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are included elsewhere in this report. We derived the historical consolidated financial data as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 from our audited consolidated financial statements included in this report. We derived the historical consolidated financial data as of December 31, 2003, 2002, and 2001, for the year ended December 31, 2002 and for the period from June 26, 2001 through December 31, 2001 from our audited consolidated financial statements, which are not contained in this report. We derived the historical financial data for the period from January 1, 2001 through June 25, 2001 from the audited consolidated financial statements of our Predecessor Company, which are not contained in this report. The selected consolidated historical financial data may not be indicative of future performance.

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	Company Year Ended December 31,				Period from June 26 through December 31, 2001	Predecessor Company Period from January 1 through June 25, 2001
	2005	2004	2003	2002		
(in thousands, except per share amounts)						
<b>Operating Data:</b>						
Net broadcasting revenue	\$ 419,907	\$ 411,495	\$ 371,509	\$ 348,869	\$ 168,187	\$ 155,297
Operating expenses:						
Cost of revenues, exclusive of depreciation and amortization shown separately below	118,949	116,579	99,832	94,368	54,924	53,759
Selling, general and administrative	118,489	118,611	112,090	114,622	56,938	57,076
Corporate general and administrative	11,919	11,239	10,094	10,751	6,038	5,620
Corporate non-cash stock compensation	3,444	4,327	10,339	25,886		14,773
Local marketing agreement fees	1,723	2,081	2,405	604	731	201
Depreciation and amortization <sup>(1)</sup>	22,346	101,270	140,659	143,079	99,054	53,077
Non-recurring merger charges <sup>(2)</sup>						40,596
Non cash charge related to contract obligations <sup>(3)</sup>		16,449				
Other, net	(353)	(776)	53	1,231	113	1,922
Total operating expenses	276,517	369,780	375,472	390,541	217,798	227,024
Operating income (loss)	143,390	41,715	(3,963)	(41,672)	(49,611)	(71,727)
Interest expense, net	21,137	17,345	48,254	61,707	34,821	41,337
Write off of deferred financing costs due to extinguishment of debt <sup>(4)</sup>		13,615	9,345			39,097
Income (loss) before income tax expense (benefit)	122,253	10,755	(61,562)	(103,379)	(84,432)	(152,161)
Income tax expense (benefit) <sup>(5)</sup>	52,496	(63,813)	28,008	(14,219)	(30,797)	(2,823)
Net income (loss)	69,757	74,568	(89,570)	(89,160)	(53,635)	(149,338)
Dividend requirement and premium paid on redemption of exchangeable preferred stock <sup>(6)</sup>				6	2	26,994
Net income (loss) applicable to common shares	\$ 69,757	\$ 74,568	\$ (89,570)	\$ (89,166)	\$ (53,637)	\$ (176,332)
Net income (loss) per share:						
Basic	\$ 0.59	\$ 0.58	\$ (0.83)	\$ (0.93)	\$ (0.56)	
Diluted	\$ 0.55	\$ 0.54	\$ (0.83)	\$ (0.93)	\$ (0.56)	
Weighted average common shares outstanding:						
Basic	119,234	129,191	107,360	96,134	96,134	
Diluted	134,534	143,379	107,360	96,134	96,134	
<b>Other Data:</b>						
Cash flow provided by (used in):						
Operating activities	\$ 140,773	\$ 147,146	\$ 84,035	\$ 64,104	\$ 17,641	\$ (166)
Investing activities	(45,535)	(156,383)	(174,409)	(14,339)	(1,063,881)	2,222
Financing activities	(91,966)	6,718	91,707	(48,297)	1,046,906	(5,187)
Capital expenditures	8,112	8,948	6,162	14,695	4,716	3,165
Current tax expense (benefit)	2,861	2,556	1,421	1,059	525	(5)
Deferred tax expense (benefit)	49,635	(66,369)	26,587	(15,278)	(31,322)	(2,818)



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	2005	2004	Company December 31, 2003	2002	2001
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 4,220	\$ 948	\$ 3,467	\$ 2,134	\$ 666
Working capital	21,995	69,930	52,181	29,083	44,997
Intangible assets, net	2,126,870	2,104,058	2,043,286	1,987,480	2,109,825
Total assets	2,333,325	2,315,698	2,249,333	2,198,333	2,325,352
Long-term debt and other liabilities (including current portion)	675,055	655,199	693,175	1,033,479	1,070,674
Exchangeable preferred stock					39
Shareholders' equity	1,274,699	1,380,383	1,232,444	866,575	940,604

- (1) We adopted SFAS No. 142 on January 1, 2002. See Note 2 to the Consolidated Financial Statements.
- (2) In connection with Forstmann Little & Co.'s acquisition of us in 2001, our Predecessor Company incurred approximately \$40.6 million in non-recurring merger-related charges during the period from January 1, 2001 through June 25, 2001. These charges primarily included \$26.9 million paid to employees for the cancellation of stock options as provided for under the merger agreement, \$9.8 million for a merger fairness opinion, \$2.5 million for legal, accounting and other professional fees and \$0.9 million for a legal settlement to its shareholders.
- (3) Operating income for 2004 reflects a non-cash charge of approximately \$16.4 million primarily due to the Company's settlement with its previous national representation firm. Under the terms of the settlement, the Company's new representation firm settled the Company's obligations under the settlement agreement with its previous representation firm and entered into a new long-term contract with the Company.
- (4) In connection with Forstmann Little & Co.'s acquisition of us in 2001 and the related extinguishment of substantially all of its 10 1/4% Senior Subordinated Notes due 2007 and all of our Predecessor Company's 9 1/4% Senior Subordinated Notes due 2008, our Predecessor Company recorded a loss of approximately \$39.1 million in the period from January 1, 2001 through June 25, 2001. Our initial public offering registration statement with the Securities and Exchange Commission was declared effective on July 31, 2003, and we used substantially all of the net proceeds of the initial public offering to repay amounts outstanding under our senior debt. In connection with the repayment, we wrote off deferred financing costs of \$8.2 million. Effective December 10, 2003, we amended our credit facility, and in connection with the amendment, we wrote off deferred financing costs of \$1.2 million in the fourth quarter of 2003. On February 18, 2004, we sold 9,630,000 shares of common stock at \$19.00 per share and concurrently sold \$330.0 million principal amount of convertible subordinated notes. We used all of the net proceeds from these transactions to retire the \$500.0 million of 6% Subordinated Debentures, and in connection with this repayment, we wrote off deferred financing costs of approximately \$10.6 million. In August 2004, we entered into a new senior credit facility that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we repaid amounts outstanding under the previous credit agreement and wrote off approximately \$3.0 million in deferred financing costs.
- (5) We recorded a non-cash deferred income tax benefit during the period from June 26, 2001 through December 31, 2001. This benefit represents the utilization of deferred tax liabilities recorded at the date of Forstmann Little & Co.'s acquisition of us in 2001. For the year ended December 31, 2002, due to an increase in valuation allowance related primarily to our net operating loss carryforwards, the tax benefit was limited to \$14.2 million. For the year ended December 31, 2003, the income tax expense of \$28.0 million was primarily due to the amortization of indefinite lived intangibles for income tax purposes, for which no benefit can be recognized in the financial statements until the assets are disposed of. Income tax benefit for the year ended December 31, 2004 was primarily due to the reversal of our valuation allowance associated with our deferred tax assets, the most significant of which was our net operating loss carry-forward.
- (6) In connection with Forstmann Little & Co.'s acquisition of us in 2001, our Predecessor Company recorded a \$20.2 million premium paid on the redemption of substantially all of its 13 1/4% Exchangeable Preferred Stock. In addition, our Predecessor Company paid \$6.8 million in dividends on the exchangeable preferred stock during the period from January 1, 2001 through June 25, 2001 and \$12.5 million during the year ended December 31, 2000.



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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

Citadel is the fifth largest radio broadcasting company in the United States based on net broadcasting revenue. As of February 28, 2006, we owned and operated 163 FM and 58 AM radio stations in 49 markets located in 24 states across the country. We have a well-clustered radio station portfolio that is diversified by programming formats, geographic regions, audience demographics and advertising clients. We rank first or second in audience share in 35 of our 45 rated markets. Our top 25 markets accounted for approximately 76% of our 2005 revenue.

On February 6, 2006, we and a wholly owned subsidiary entered into an Agreement and Plan of Merger (the "ABC Radio Merger Agreement") with The Walt Disney Company ("TWDC") and ABC Chicago FM Radio, Inc., a Delaware corporation and wholly owned subsidiary of TWDC. Pursuant to and subject to the terms and conditions contained in the ABC Radio Merger Agreement, we will combine ABC Radio, which includes 22 radio stations and the ABC Radio Network, with the Company. Immediately after closing of the merger transactions and subject to adjustments described in the ABC Radio Merger Agreement, the former holders of TWDC common stock will own approximately 52% of the common stock of the combined Company, which will be named Citadel Communications. The merger and the issuance of our common stock in the merger have been approved by written consent by holders of record of a majority of our common stock. (See Item 8, Financial Statements and Supplementary Data, Note 1 for more information).

**Advertising Revenue**

Our revenue is generated primarily from the sale of local, regional and national advertising for broadcast on our radio stations. In 2005, approximately 86% of our net broadcast revenue was generated from the sale of local and regional advertising and approximately 14% was generated from the sale of national advertising. The major categories of our advertisers include automotive companies, retail merchants, restaurants, fast food chains, telephone companies and grocery stores.

Each station's local sales staff solicits advertising either directly from the local advertiser or indirectly through an advertising agency. Through direct advertiser relationships, we can better understand the advertiser's business needs and more effectively design advertising campaigns to sell the advertiser's products. We employ personnel in each of our markets to assist in the production of commercials for the advertiser. In-house production, combined with effectively designed advertising, establishes a stronger relationship between the advertiser and the station cluster. National sales are made by a firm specializing in radio advertising sales on the national level, in exchange for a commission based on gross revenue. We also target regional sales, which we define as sales in regions surrounding our markets, to companies that advertise in our markets through our local sales force.

Depending on the programming format of a particular station, we estimate the optimum number of advertising spots that can be broadcast while maintaining listening levels. Our stations strive to maximize revenue by managing advertising inventory. Pricing is adjusted based on local market conditions and our ability to provide advertisers with an effective means of reaching a targeted demographic group. Each of our stations has a general target level of on-air inventory. This target level of inventory may vary throughout the day but tends to remain stable over time. Much of our selling activity is based on demand for our radio stations' on-air inventory and, in general, we respond to changes in demand by varying prices rather than changing our target inventory level for a particular station. Therefore, most changes in revenue reflect demand-driven pricing changes.

A station's listenership is reflected in ratings surveys that estimate the number of listeners tuned to the station and the time they spend listening. Advertisers and advertising representatives use station ratings to consider advertising with the station. We use station ratings to chart audience levels, set advertising rates and

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adjust programming. The radio broadcast industry's principal ratings service is Arbitron, which publishes periodic ratings surveys for significant domestic radio markets. These surveys are our primary source of audience ratings data.

We believe that radio is one of the most efficient and cost-effective means for advertisers to reach specific demographic groups. Advertising rates charged by radio stations are based primarily on the following:

the supply of, and demand for, radio advertising time;

a station's share of audiences in the demographic groups targeted by advertisers, as measured by ratings surveys estimating the number of listeners tuned to the station at various times; and

the number of stations in the market competing for the same demographic groups.

**Components of Expenses**

Our most significant expenses are (1) sales costs, (2) programming expenses, (3) advertising and promotional expenses and (4) administrative and technical expenses. We strive to control these expenses by working closely with local management and centralizing functions such as finance, accounting, legal, human resources and management information systems. We also use our multiple stations, market presence and purchasing power to negotiate favorable rates with vendors.

Depreciation and amortization of tangible and intangible assets associated with the acquisition of radio stations and interest carrying charges historically have been significant factors in determining our overall profitability. Based on intangible assets currently held by us as of December 31, 2005, we expect the total amortization expense incurred will continue to decrease due to the remaining weighted-average useful amortization period of intangible assets subject to amortization.

**Results of Operations**

Our results of operations represent the operations of the radio stations owned or operated by us, or for which we provide sales and marketing services, during the applicable periods. The following discussion should be read in conjunction with the accompanying consolidated financial statements and the related notes included in this report.

Historically, we have managed our portfolio of radio stations through selected acquisitions, dispositions and exchanges, as well as through the use of local marketing agreements (LMAs) and joint sales agreements (JSAs). Under an LMA or a JSA, the company operating a station provides programming or sales and marketing or a combination of such services on behalf of the owner of a station. The broadcast revenue and operating expenses of stations operated by us under LMAs and JSAs have been included in our results of operations since the respective effective dates of such agreements.

**Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***Net Broadcasting Revenue*

	December 31, 2005	December 31, 2004	\$ Change	% Change
	(Amounts in millions)			
Net revenues:				
Local	\$ 363.1	\$ 351.7	\$ 11.4	3.2%
National	56.8	59.8	(3.0)	-5.0%
Net broadcasting revenue	\$ 419.9	\$ 411.5	\$ 8.4	2.0%

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Net revenues for the year ended December 31, 2005 were \$419.9 million compared with \$411.5 million for the year ended December 31, 2004, an increase of \$8.4 million, or 2.0%. The increase in revenues was primarily

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due to higher revenues at the Company's stations, including stations in Allentown, PA, Buffalo, NY, Oklahoma City, OK and Modesto, CA, offset by lower revenues in Colorado Springs, CO, Lansing, MI, and Portland, ME. Most of the increase from 2004 to 2005 was in local revenues, but was partially offset by lower revenues generated from national advertising. In 2005, the Company had a decrease in revenue from political advertisers of \$4.4 million, and net revenues in the current year were affected by lower revenues at the Company's stations in the New Orleans market as a result of Hurricane Katrina in August 2005. Additionally, the Company benefited from acquisitions in Springfield, MA and Tuscaloosa, AL, offset by stations sold, as well as lower revenues associated with certain programming terminated at the beginning of the year.

*Cost of Revenues*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Cost of revenues (exclusive of depreciation and amortization shown separately below)	\$ 118.9	\$ 116.6	\$ 2.3	2.0%

Cost of revenues increased by \$2.3 million, or 2.0% to \$118.9 million for the year ended December 31, 2005, as compared to \$116.6 million for the year ended December 31, 2004. This increase is primarily due to approximately \$2.6 million in cost of revenues related to significant radio stations we acquired in 2005 and 2004 and increases due to programming cost increases at our existing stations, partially offset by reduced expenses in our New Orleans market, which was impacted by damage caused by Hurricane Katrina in August 2005.

*Selling, General and Administrative*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Selling, general and administrative expenses	\$ 118.5	\$ 118.6	\$ (0.1)	-0.1%

Selling, general and administrative expenses remained relatively consistent overall, decreasing \$0.1 million, or less than 1%, from \$118.6 million for the year ended December 31, 2004 to \$118.5 million for the year ended December 31, 2005. This decrease was primarily due to reduced selling, general and administrative expenses at our existing stations, including stations in our New Orleans market due to Hurricane Katrina in August 2005, partially offset by selling, general and administrative expenses related to significant radio stations we acquired in 2005 and 2004.

*Corporate General and Administrative Expenses*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Corporate general and administrative expenses	\$ 11.9	\$ 11.2	\$ 0.7	6.3%

Corporate general and administrative expenses were \$11.9 million for the year ended December 31, 2005, an increase of \$0.7 million, or 6.3%, as compared to \$11.2 million for the year ended December 31, 2004. This increase was primarily due to an increase of \$0.6 million in legal and other professional fees for the year ended December 31, 2005 as compared to the same period in 2004, as well as an overall increase in corporate compensation in the current year.

*Corporate Non-Cash Stock Compensation*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Non-cash stock compensation	\$ 3.4	\$ 4.3	\$ (0.9)	-20.9%

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Corporate non-cash stock compensation expense was \$3.4 million for the year ended December 31, 2005, a decrease of \$0.9 million, or 20.9%, from \$4.3 million for the year ended December 31, 2004. The prior year compensation expense relates to stock options granted to our Chief Executive Officer in March 2002 and shares of common stock issued to our Chief Executive Officer in April 2002, and the expense is recognized over the vesting period of the options and shares applicable to each respective option and share tranche, which results in accelerated recognition of compensation expense. The corporate non-cash compensation expense related to these transactions was fully expensed in the first quarter of 2005. Effective September 20, 2005, the Company granted to our Chief Executive Officer 1,250,000 restricted shares of common stock that vest in one-third installments annually, beginning on September 20, 2006. Deferred compensation of approximately \$16.7 million was recorded and is being recognized as compensation expense over the vesting period of each tranche of the shares. During the year ended December 31, 2005, such expense was approximately \$2.8 million.

*Depreciation and Amortization*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Depreciation and amortization:				
Depreciation	\$ 20.1	\$ 19.8	\$ 0.3	1.5%
Amortization	2.2	81.5	(79.3)	-97.3%
Total depreciation and amortization	\$ 22.3	\$ 101.3	\$ (79.0)	-78.0%

Depreciation and amortization expense of \$22.3 million for the year ended December 31, 2005 decreased \$79.0 million, or 78.0%, from \$101.3 million for the year ended December 31, 2004. This decrease in depreciation and amortization is due to a reduction in amortization expense primarily related to our advertiser base asset. The advertiser base asset was substantially fully amortized as of the end of 2004.

*Non-cash Charge Related to Contract Obligations*

Operating income for 2004 reflects a non-cash charge of approximately \$16.4 million primarily due to our settlement with our previous national representation firm. Under the terms of the settlement, our new representation firm settled our obligations under the settlement agreement with our previous representation firm and entered into a new long-term contract with us.

*Operating Income*

Operating income was \$143.4 million for the year ended December 31, 2005, an improvement of \$101.7 million as compared to operating income of \$41.7 million for the year ended December 31, 2004. This increase in operating income was primarily attributable to an increase in revenues and decreases in depreciation and amortization expense of \$79.0 million, partially offset by an overall increase in cost of revenues and selling, general and administrative expenses. In addition, operating income for the year ended December 31, 2004 reflected a non-cash charge of approximately \$16.4 million primarily due to the Company's settlement with its previous national representation firm. Excluding this non-cash charge, the Company's operating income for 2004 would have been approximately \$58.1 million, resulting in an increase in the 2005 period of \$85.3 million.

*Interest Expense, Net*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Interest expense, net	\$ 21.1	\$ 17.3	\$ 3.8	22.0%

Net interest expense was \$21.1 million for the year ended December 31, 2005, an increase of \$3.8 million, or 22.0%, as compared to \$17.3 million for the year ended December 31, 2004. The increase in net interest

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expense was primarily due to the Company's overall increase in outstanding borrowings under the senior debt and higher interest rates for 2005 as compared to 2004. This increase was partially offset by the net effect of the repayment of \$500.0 million of 6% subordinated notes on February 18, 2004 offset by the concurrent issuance of \$330.0 million of 1.875% convertible subordinated notes.

*Write Off of Deferred Financing Costs Due to Extinguishment of Debt*

During the year ended December 31, 2004, we wrote off deferred financing costs of \$13.6 million. On February 18, 2004, we sold 9,630,000 shares of our common stock at \$19.00 per share and concurrently sold \$330.0 million principal amount of convertible subordinated notes. We used all of the net proceeds from these transactions to retire the \$500.0 million of 6% Debentures. In connection with the repayment of the 6% Debentures, we wrote off deferred financing costs of approximately \$10.6 million. Additionally, in August 2004, we entered into a new senior credit agreement that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we repaid amounts outstanding under the previous credit agreement and wrote off approximately \$3.0 million in deferred financing costs.

*Income Taxes*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change
Income tax expense (benefit)	\$ 52.5	\$ (63.8)	\$ 116.3

Income tax expense for the year ended December 31, 2005 was \$52.5 million compared to an income tax benefit for the year ended December 31, 2004 of \$63.8 million. Income tax benefit for the year ended December 31, 2004 was primarily due to the reversal of our valuation allowance associated with our deferred tax assets, the most significant of which was our net operating loss carry-forward. We believe the net operating loss will be utilized within the carry-forward period.

*Net Income*

As a result of the factors described above, our net income was \$69.8 million for the year ended December 31, 2005 compared to \$74.6 million for the year ended December 31, 2004.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***Net Broadcasting Revenue*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Net revenues:				
Local	\$ 351.7	\$ 311.6	\$ 40.1	12.9%
National	59.8	59.9	(0.1)	-0.2%
Net broadcasting revenue	\$ 411.5	\$ 371.5	\$ 40.0	10.8%

Net broadcasting revenue was \$411.5 million for the year ended December 31, 2004, an increase of \$40.0 million, or 10.8%, as compared to \$371.5 million for the year ended December 31, 2003. The increase was due to higher revenues from most of our existing stations as well as from stations acquired in 2003 and 2004. Most of the increase from 2003 to 2004 was in local revenues, but was partially offset by lower revenue generated from national advertising. Net broadcasting revenue, excluding barter revenue, increased for the year ended December 31, 2004 by \$37.7 million, or 10.4%, over the same period in 2003, while barter revenue, which represents revenue earned in exchange for goods or services received from advertisers, increased \$2.3 million, or

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30.7% over the same period in 2003. Included in net broadcasting revenue for the year ended December 31, 2004 was approximately \$19.6 million of incremental revenue related to significant radio stations we acquired in 2004 and 2003, including Memphis, New Orleans and Des Moines. The remaining increase in net broadcasting revenue was due to the net impact of other radio station acquisitions and dispositions in 2004 and 2003, as well as overall increases in revenue at our existing stations. The increase in revenue at our existing stations was positively impacted by our Albuquerque, Providence, and Salt Lake City markets, while our Birmingham, Lansing, and Saginaw markets experienced lower revenues.

*Cost of Revenues*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Cost of revenues (exclusive of depreciation and amortization shown separately below)	\$ 116.6	\$ 99.8	\$ 16.8	16.8%

Cost of revenues increased by \$16.8 million, or 16.8% to \$116.6 million for the year ended December 31, 2004, as compared to \$99.8 million for the year ended December 31, 2003. Barter expenses, which represent the value of services received from advertisers in exchange for commercial air-time, increased by \$1.8 million, or 24.3%, over the same period in 2003, while the remaining cost of revenues increased by \$15.0 million, or 16.2%, for the year ended December 31, 2004 as compared to the year ended December 31, 2003. This increase was primarily due to approximately \$5.7 million in cost of revenues related to significant radio stations we acquired in 2004 and 2003 and approximately \$4.1 million representing programming costs related to our Tennessee Titans broadcasting rights agreement, as we acquired the remaining 50% interest in the rights during 2004. The remaining increase was primarily due to programming cost increases at our existing stations.

*Selling, General and Administrative*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Selling, general and administrative expenses	\$ 118.6	\$ 112.1	\$ 6.5	5.8%

Selling, general and administrative expenses increased \$6.5 million, or 5.8%, from \$112.1 million for the year ended December 31, 2003 to \$118.6 million for the year ended December 31, 2004. This increase was primarily due to approximately \$7.0 million in selling, general and administrative expenses related to significant radio stations we acquired in 2004 and 2003, offset by decreased selling, general and administrative expenses at our existing stations.

*Corporate General and Administrative Expenses*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Corporate general and administrative expenses	\$ 11.2	\$ 10.1	\$ 1.1	10.9%

Corporate general and administrative expenses were \$11.2 million for the year ended December 31, 2004, an increase of \$1.1 million, or 10.9%, as compared to \$10.1 million for the year ended December 31, 2003. This increase was primarily due to an overall increase of \$0.9 million in corporate compensation for the year ended December 31, 2004 as compared to the same period in 2003.

*Corporate Non-Cash Stock Compensation*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Non-cash stock compensation	\$ 4.3	\$ 10.3	\$ (6.0)	-58.3%

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Corporate non-cash stock compensation expense was \$4.3 million for the year ended December 31, 2004, a decrease of \$6.0 million, or 58.3%, from \$10.3 million for the year ended December 31, 2003. The compensation expense relates to stock options granted to our chief executive officer in March 2002 and shares of common stock issued to our chief executive officer in April 2002, and the expense is recognized over the vesting period of the options and shares applicable to each respective option and share tranche, which results in accelerated recognition of compensation expense. As of December 31, 2004, we had approximately \$0.6 million of deferred compensation remaining.

*Depreciation and Amortization*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
<b>Depreciation and amortization:</b>				
Depreciation	\$ 19.8	\$ 19.1	\$ 0.7	3.7%
Amortization	81.5	121.6	(40.1)	-33.0%
<b>Total depreciation and amortization</b>	<b>\$ 101.3</b>	<b>\$ 140.7</b>	<b>\$ (39.4)</b>	<b>-28.0%</b>

Depreciation and amortization expense of \$101.3 million for the year ended December 31, 2004 decreased \$39.4 million, or 28.0%, from \$140.7 million for the year ended December 31, 2003. This decrease in depreciation and amortization was due to a reduction in amortization expense primarily related to our advertiser base asset. The advertiser base asset was substantially fully amortized as of the end of 2004.

*Non-cash Charge Related to Contract Obligations*

Operating income for 2004 reflected a non-cash charge of approximately \$16.4 million primarily due to our settlement with our previous national representation firm. Under the terms of the settlement, our new representation firm settled our obligations under the settlement agreement with our previous representation firm and entered into a new long-term contract with us.

*Operating Income (Loss)*

Operating income was \$41.7 million for the year ended December 31, 2004, an improvement of \$45.7 million as compared to an operating loss of \$4.0 million for the year ended December 31, 2003. This increase in operating income was primarily attributable to an increase in revenue and decreases in depreciation and amortization expense and corporate non-cash stock compensation expense, offset by increases in cost of revenues, selling, general and administrative expenses, and non-cash charge related to contract obligations.

*Interest Expense, Net*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change	% Change
Interest expense, net	\$ 17.3	\$ 48.3	\$ (31.0)	-64.2%

Net interest expense was \$17.3 million for the year ended December 31, 2004, a decrease of \$31.0 million, or 64.2%, as compared to \$48.3 million for the year ended December 31, 2003. The decrease in net interest expense was primarily due to the repayment of \$500.0 million of 6% subordinated debentures on February 18, 2004, partially offset by the concurrent issuance of \$330.0 million of 1.875% convertible subordinated notes. Additionally, we experienced an overall reduction in the interest rates payable on our senior indebtedness during the year ended December 31, 2004, which ranged from 2.1% to 3.0% as compared to a range of 2.1% to 4.5% during the year ended December 31, 2003, in addition to a decrease in our average outstanding indebtedness. During the year ended December 31, 2004, our outstanding debt averaged \$616.2 million compared to an average



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of \$887.8 million during the year ended December 31, 2003 primarily as a result of the repayment of senior debt with the net proceeds from our initial public offering completed in August 2003 and the repayment of our 6% Debentures with the net proceeds of our secondary offering in February 2004.

*Write Off of Deferred Financing Costs Due to Extinguishment of Debt*

During the year ended December 31, 2004, we wrote off deferred financing costs of \$13.6 million compared to \$9.3 million during the year ended December 31, 2003. On February 18, 2004, we sold 9,630,000 shares of our common stock at \$19.00 per share and concurrently sold \$330.0 million principal amount of convertible subordinated notes. We used all of the net proceeds from these transactions to retire the \$500.0 million of 6% Debentures. In connection with the repayment of the 6% Debentures, we wrote off deferred financing costs of approximately \$10.6 million. Additionally, in August 2004, we entered into a new senior credit agreement that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we repaid amounts outstanding under the previous credit agreement and wrote off approximately \$3.0 million in deferred financing costs. In connection with the repayment of senior debt in the third quarter of 2003, we wrote off deferred financing costs of approximately \$8.2 million, and in conjunction with the amendment to our credit facility effective in December 2003, we wrote off deferred financing costs of approximately \$1.2 million.

*Income Taxes*

	December 31, 2004	December 31, 2003 (Amounts in millions)	\$ Change
Income tax (benefit) expense	\$ (63.8)	\$ 28.0	\$ (91.8)

Income tax benefit for the year ended December 31, 2004 was \$63.8 million compared to an income tax expense of \$28.0 million for the year ended December 31, 2003. Income tax benefit for the year ended December 31, 2004 was primarily due to the reversal of our valuation allowance associated with our deferred tax assets, the most significant of which was our net operating loss carry-forward. We believe the net operating loss will be utilized within the carry-forward period. The income tax expense for the year ended December 31, 2003 was primarily due to the amortization of indefinite lived intangibles for income tax purposes, for which no benefit can be recognized in the financial statements until the assets are disposed of. The income tax (benefit) expense includes current income tax expense of approximately \$2.6 million and \$1.4 million for the years ended December 31, 2004 and 2003, respectively.

*Net Income (Loss)*

As a result of the factors described above, our net income was \$74.6 million for the year ended December 31, 2004 compared to a net loss of \$89.6 million for the year ended December 31, 2003.

**Liquidity and Capital Resources**

Our primary sources of liquidity are cash provided by operations, undrawn commitments available under our senior credit facility and proceeds generated from the sale of our debt and equity securities. In connection with the close of the transaction under the ABC Radio Merger Agreement, our financial leverage will be substantially increased.

*Stock and Convertible Notes Offerings*

On February 18, 2004, we completed a public offering of 29,630,000 shares of our common stock at \$19.00 per share, including 9,630,000 primary shares sold by us and 20,000,000 shares sold by certain of our shareholders. On the same date, we completed a private placement of \$330.0 million of convertible notes due 2011. We used the approximately \$500.0 million of net proceeds we received from these two offerings to redeem

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all of our outstanding 6% subordinated debentures. On May 13, 2004, the shelf registration covering resales of our convertible subordinated notes became effective with the Securities and Exchange Commission.

*Operating Activities*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Net cash provided by operating activities	\$ 140.8	\$ 147.1	\$ (6.3)	-4.3%

Net cash provided by operating activities was \$140.8 million for the year ended December 31, 2005 as compared to \$147.1 million for the year ended December 31, 2004. The decrease was primarily due to the overall increases in cost of revenues and corporate general and administrative expense of \$3.0 million and in net interest expense of \$3.8 million, as well as changes in operating assets and liabilities of \$8.0 million, partially offset by the increase in net broadcasting revenues of \$8.4 million and a decrease in selling, general and administrative expenses of \$0.1 million.

*Investing and Financing Activities*

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change	% Change
Net cash used in investing activities	\$ (45.5)	\$ (156.4)	\$ 110.9	-70.9%

Net cash used in investing activities decreased to \$45.5 million for the year ended December 31, 2005, as compared to \$156.4 million for the year ended December 31, 2004. During 2005, approximately \$58.0 million was used for acquisitions of radio stations and capital expenditures, which includes buildings, studio equipment, towers and transmitters, vehicles and other assets utilized in the operation of our stations, offset by proceeds from the sale of assets of \$12.6 million, compared to \$166.5 million for similar costs in 2004, offset by \$8.4 million in proceeds from sale of assets.

	December 31, 2005	December 31, 2004 (Amounts in millions)	\$ Change
Net cash (used in) provided by financing activities	\$ (92.0)	\$ 6.7	\$ (98.7)

Net cash used in financing activities was \$92.0 million for the year ended December 31, 2005, as compared to net cash provided by financing activities of \$6.7 million for the year ended December 31, 2004. During the year ended December 31, 2005, we increased our net borrowings under our senior debt by \$36.5 million primarily to complete the acquisition of radio stations, and we repurchased shares of our common stock for an aggregate amount of approximately \$127.9 million. For the year ended December 31, 2004, the net cash provided by financing activities included proceeds from the issuance of our common stock of \$175.7 million, net of underwriting commissions and other stock issuance costs of approximately \$7.3 million, and the concurrent sale of \$330.0 million principal amount of convertible subordinated notes, before underwriting discount and other debt issuance costs of approximately \$7.4 million. We used all of the net proceeds from these transactions to retire the \$500.0 million of subordinated debentures. Additionally, during 2004, we increased our net borrowings under our senior debt by \$117.9 million primarily to complete the acquisition of radio stations in Memphis, TN and Springfield, MA and repurchase shares of our common stock for an aggregate amount of approximately \$106.8 million. In August 2004, we entered into a new senior credit facility that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we paid approximately \$3.7 million in debt issuance costs.

During the year ended December 31, 2005, we completed acquisitions, including two radio stations in the Providence, RI market for a cash purchase price of approximately \$14.7 million and six radio stations in the Tuscaloosa, AL market and one radio station in the Birmingham, AL market, all of which had been operating

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under a local marketing agreement since March 1, 2005, for an aggregate cash purchase price of approximately \$29.5 million. We funded these acquisitions through cash flows from operating activities and borrowings under our revolving credit facility.

In addition to debt service, our principal liquidity requirements are for working capital, general corporate purposes, capital expenditures, acquisitions of additional radio stations, and stock repurchases. Our capital expenditures totaled \$8.1 million during the year ended December 31, 2005, as compared to \$8.9 million during the year ended December 31, 2004. We believe that cash flows from operating activities, together with availability under our revolving credit facility, should be sufficient for us to fund our current operations for at least the next 12 months.

On June 29, 2004 and November 3, 2004, we announced that our board of directors had authorized us to spend up to \$100.0 million and \$300.0 million, respectively, to repurchase shares of our outstanding common stock. As of February 28, 2006, we had repurchased approximately 21.8 million shares of our common stock for an aggregate amount of approximately \$292.4 million under these repurchase programs.

To the extent we require additional capital to fund our capital expenditures, pending or future acquisitions, stock repurchases, or any of our other contractual or commercial commitments, we intend to seek additional funding in the credit or capital markets and there can be no assurance that we will be able to obtain financing on terms acceptable to us.

**Senior Debt**

In August 2004, we entered into a new senior credit facility that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we repaid amounts outstanding under the previous senior credit facility and wrote off approximately \$3.0 million in deferred financing costs. As of December 31, 2005, our senior credit facility consisted of the following:

	<b>Commitment</b>	<b>Balance Outstanding</b>
	<b>(in thousands)</b>	
Revolving credit facility	\$ 600,000	\$ 322,500

*Availability.* The amount available under our senior credit facility at December 31, 2005 was \$277.5 million in the form of revolving credit commitments. This excludes approximately \$2.2 million in letters of credit outstanding as of December 31, 2005. Our ability to borrow under our senior credit facility is limited by our ability to comply with several financial covenants as well as a requirement that we make various representations and warranties at the time of borrowing.

*Interest.* At our election, interest on any outstanding principal accrues at a rate based on either: (a) the greater of (1) the Prime Rate in effect; or (2) the Federal Funds Rate plus 0.5%, in each case, plus a spread that ranges from 0.00% to 0.375%, depending on our leverage ratio; or (b) the Eurodollar rate (grossed-up for reserve requirements) plus a spread that ranges from 0.625% to 1.375%, depending on our leverage ratio.

*Maturity and Amortization.* The revolving loans are due in full on January 15, 2010.

*Security and Guarantees.* Our operating subsidiary, Citadel Broadcasting Company, is the primary borrower under this senior credit facility. We have guaranteed the performance of Citadel Broadcasting Company under our senior credit facility. We have pledged to our lenders all of the equity interests in and intercompany notes issued by Citadel Broadcasting Company.

*Covenants.* Our senior credit facility contains customary restrictive non-financial covenants, which, among other things, and with certain exceptions, limit our ability to incur additional indebtedness, liens and contingent

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obligations, enter into transactions with affiliates, make acquisitions, declare or pay dividends, redeem or repurchase capital stock, enter into sale and leaseback transactions, consolidate, merge or effect asset sales, make investments, loans, enter into derivative contracts, or change the nature of our business. Our senior credit facility also contains covenants related to the satisfaction of financial ratios and compliance with financial tests, including ratios with respect to maximum leverage, minimum interest coverage and minimum fixed charge coverage. At December 31, 2005, we were in compliance with all covenants under our senior credit facility.

### **Subordinated Debt and Convertible Subordinated Notes**

In June 2001, we issued an aggregate of \$500.0 million of 6% subordinated debentures. On February 18, 2004, we sold 9,630,000 shares of our common stock at \$19.00 per share. Additionally, we concurrently sold \$330.0 million principal amount of convertible subordinated notes. We used all of the net proceeds from these transactions to retire the \$500.0 million of 6% subordinated debentures. In connection with the repayment of the subordinated debentures, we wrote off deferred financing costs of approximately \$10.6 million. The convertible subordinated notes are due in 2011 and were issued in a private placement to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A. The notes bear interest at an initial rate of 1.875% per annum, payable February 15 and August 15 each year. Holders may convert these notes into common stock at a conversion rate of 39.2157 shares of common stock per \$1,000 principal amount of notes, equal to a conversion price of \$25.50 per share. Pursuant to the terms of the indenture governing the convertible subordinated notes, the initial conversion price was adjusted to be \$25.16 per share of our common stock, effective immediately after November 30, 2005, as a result of the payment to shareholders of record on November 30, 2005 of a dividend on the common stock in the amount of \$0.18 per share. We may redeem the notes at any time prior to maturity if the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days. Upon such a redemption, an additional payment would be due to the holder. Holders may require us to repurchase all or part of their notes at par plus accrued interest upon the occurrence of a fundamental change (as defined in the indenture governing the terms of the notes). On May 13, 2004, the shelf registration covering resales of our convertible subordinated notes became effective with the Securities and Exchange Commission.

On February 21, 2006, we received a letter from an attorney claiming to represent holders of approximately 31% of the principal amount of our convertible subordinated notes that purported to be a notice of default under the indenture governing the convertible subordinated notes. The letter alleges that events of default have arisen and continue to arise from the ABC Merger Agreement. Specifically, the letter alleges that certain transactions and agreements contemplated by the ABC Merger Agreement will or do constitute a Fundamental Change under the indenture. We do not believe that any of the transactions or agreements contemplated by the ABC Merger Agreement will or do constitute a Fundamental Change under the indenture or that any event of default has occurred. In the event of a Fundamental Change, subject to the terms and conditions of the indenture, holders of convertible subordinated notes would have the right to require us to repurchase all or a portion of the convertible subordinated notes at a price equal to 100% of the principal amount plus accrued interest. If any of the events described in the letter were to be an Event of Default and were to be continuing, subject to the terms and conditions of the indenture, the trustee under the indenture or holders of at least 25% in aggregate principal amount of the outstanding convertible subordinated notes could declare the principal of and accrued interest on all convertible subordinated notes to be due and payable, and there could be an event of default under our Senior Credit Facility.

### **Critical Accounting Policies**

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable judgments. Actual results could differ from these estimates under different assumptions and conditions.

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We consider the following policies to be most critical in understanding the judgments involved in preparing our financial statements and the uncertainties that could affect our results of operations, financial condition and cash flows.

*Allowance for Doubtful Accounts.* We recognize an allowance for doubtful accounts based on historical experience of bad debts as a percent of our aged outstanding receivables. Based on historical information, we believe that our allowance is adequate. However, future changes in general economic, business and market conditions could affect the ability of our customers to make their required payments.

*Impairment of Intangible Assets.* On January 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets, and were required to assess our goodwill and FCC licenses for impairment within the first six months of 2002, and on at least an annual basis thereafter. Our intangible assets include FCC licenses, goodwill and other intangible assets. As of December 31, 2005 and December 31, 2004, we had approximately \$2,126.9 million and \$2,104.1 million, respectively, in intangible assets, which represent approximately 91% of our total assets. The fair value of our FCC licenses and goodwill is primarily dependent on the cash flows of our stations. We utilize independent appraisals to determine the fair value of FCC licenses and goodwill for significant acquisitions. These appraisals principally use the discounted cash flow methodology to determine the value of the FCC licenses. This approach consists of a quantitative model, which incorporates variables such as market advertising revenues, market revenue share projections, anticipated operating profit margins and various discount rates. The variables used in the analysis reflect historical station and advertising market growth trends, as well as anticipated performance and market conditions.

We evaluate our FCC licenses for impairment as of October 1, our annual impairment testing date, or more frequently if events or changes in circumstances indicate that the assets might be impaired. We may engage a third party appraiser to assist in this evaluation. FCC licenses are evaluated for impairment at the market level. If the carrying amount of FCC licenses is greater than their estimated fair value in a given market, the carrying amount of FCC licenses in that market is reduced to its estimated fair value. Our impairment testing for goodwill in each of our reporting units (markets) is also performed as of October 1 or more frequently if certain circumstances are present. The evaluation is determined based primarily on discounted expected future cash flows to be generated from each market. These cash flows are then compared to the net assets of each market. If the cash flows exceed the net assets of the market, then no impairment of goodwill exists.

Our New Orleans market sustained damage as a result of Hurricane Katrina ( Katrina ) in August 2005 and the subsequent flooding of the area. Since Katrina represented a potential impairment indicator for the affected market, we performed an impairment analysis of FCC licenses and goodwill in the New Orleans market in the third quarter of 2005, as well as at our annual testing date in the fourth quarter of 2005. We determined that no impairment of intangible assets had occurred during 2005. If actual market conditions are less favorable than those projected by us, or if an event occurs or circumstances change that would, more likely than not, reduce the fair value of our FCC license or goodwill for the New Orleans market below the amounts reflected in the balance sheet, we may be required to recognize impairment charges in future periods.

Although the full extent of the damage to our stations from Katrina is still under evaluation, we believe that we are insured for certain losses resulting from Katrina. One of our stations in the New Orleans market was unable to broadcast for an extended period of time as a result of Katrina and the general disruption of the local economy, which negatively impacted revenues in 2005. We maintain business interruption insurance and expect to be reimbursed for a portion of lost net income as a result of Katrina. Any business interruption proceeds will generally be recognized upon receipt.

We have also performed our annual impairment analysis of our FCC licenses and goodwill as of our October 1 testing date. These analyses make various assumptions about growth rates and market conditions in determining whether an impairment exists. If actual market conditions are less favorable than those projected by the industry or us, or if an event occurs or circumstances change that would, more likely than not, reduce the fair

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value of our FCC licenses or goodwill below the amounts reflected in the balance sheet, we may be required to recognize impairment charges in future periods, which could have a material impact on our financial condition or results of operations.

Intangible assets represent a substantial portion of our total assets. Based on the Company's test for impairment of goodwill and intangible assets, the Company may be required to recognize impairment charges in future periods, especially in our New Orleans market, in order to reduce the carrying value of intangibles to their respective fair values.

*Contingencies and Litigation.* On an ongoing basis, we evaluate our exposures related to contingencies and litigation and record a liability when available information indicates that a liability is probable and estimable. We also disclose significant matters that are reasonably possible to result in a loss or are probable but not estimable.

*Income Taxes.* We utilize the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the third quarter of 2004, we reversed a substantial portion of our valuation allowance associated with our deferred tax assets, the most significant of which was our net operating loss carry-forward. We believe the net operating loss will be utilized within the carry-forward period. This determination is based on management's estimates of future taxable income; to the extent that actual results differ materially from management's estimates, an increase in the valuation allowance could be required.

**Contractual and Commercial Commitments**

Due to the completion of our secondary offering in February of 2004 (See *Liquidity and Capital Resources* *Stock and Convertible Notes Offerings* ), the contractual commitments under our senior debt and subordinated debt have been significantly reduced. In August 2004, we entered into a new senior credit facility that provides for \$600.0 million in revolving loans through January 15, 2010. In connection therewith, we repaid amounts outstanding under the previous senior credit facility. As of December 31, 2005, we had \$322.5 million outstanding under the revolving portion of our senior debt and \$330.0 million outstanding under our convertible notes. The table below reflects our significant contractual obligations and other commercial commitments as of December 31, 2005:

Contractual Obligation	Total	Payments Due by Period (in millions)			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Senior debt and convertible subordinated notes	\$ 652.5	\$	\$	\$	\$ 652.5
Interest payments on convertible notes	34.1	6.2	12.4	12.4	3.1
Pending acquisitions <sup>(1)</sup>	8.1	8.1			
Sports broadcasting and employment contracts	57.1	23.5	25.4	8.2	
Operating leases	39.9	6.4	10.3	7.1	16.1
Other contractual obligations	4.2	3.2	0.9	0.1	
<b>Total contractual cash obligations<sup>(2)</sup></b>	<b>\$ 795.9</b>	<b>\$ 47.4</b>	<b>\$ 49.0</b>	<b>\$ 27.8</b>	<b>\$ 671.7</b>

1. Our pending acquisitions are subject to the satisfaction of various conditions, including the receipt of required regulatory approvals. See *Federal Regulation of Radio Broadcasting* *Multiple Ownership Rules* . This table assumes that these conditions will be satisfied and that all of our pending acquisitions will

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be completed within one year. Subsequent to December 31, 2005, we closed acquisition transactions totaling \$8.1 million. This table does not take into account any contractual obligations or contractual commitments in connection with the proposed business combination with the ABC Radio stations and ABC Radio Network.

2. We expect that we will be able to fund our remaining obligations and commitments with cash flow from operations. To the extent we are unable to fund these obligations and commitments with cash flow from operations, we intend to fund these obligations and commitments with proceeds from borrowings under our credit facility. Our \$330.0 million in 1.875% convertible subordinated notes are due February 15, 2011, with interest payable February 15 and August 15 each year. To the extent that our cash flow from operations is insufficient to repay the 1.875% convertible subordinated notes, we may be required to seek additional funding from the credit or capital markets in order to repay the remaining balance of these convertible subordinated notes. Variable rate interest payments related to our credit facility have not been included in the contractual obligation table above.

### ***Off-Balance Sheet Arrangements***

In connection with the acquisition of a radio station in Salt Lake City, UT, we agreed to guarantee up to \$10.0 million of the seller's other financing. As of December 31, 2005, the guarantee was reduced to \$9.7 million.

We have no other material off-balance sheet arrangements or transactions.

### **Impact of Inflation**

We do not believe inflation has a significant impact on our operations. However, there can be no assurance that future inflation would not have an adverse impact on our operating results and financial condition.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to a number of financial market risks in the ordinary course of business. We believe our primary financial market risk exposure pertains to interest rate changes primarily as a result of our credit agreement, which bears interest based on variable rates. We have not taken any action to cover interest rate market risk, and are not a party to any interest rate market risk management activities. We have performed a sensitivity analysis assuming a hypothetical increase in interest rates of 100 basis points applied to the \$322.5 million of variable rate debt that was outstanding as of December 31, 2005. Based on this analysis, the impact on future earnings for the following twelve months would be approximately \$3.2 million of increased interest expense. This potential increase is based on certain simplifying assumptions, including a constant level of variable rate debt.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders of

Citadel Broadcasting Corporation

We have audited the accompanying consolidated balance sheets of Citadel Broadcasting Corporation and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 14, 2006



**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, except share and per share amounts)

	December 31,	
	2005	2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,220	\$ 948
Accounts receivable, net	75,037	74,908
Prepaid expenses and other current assets (including deferred income tax assets of \$25,336 and \$23,838, respectively)	27,511	26,369
Total current assets	106,768	102,225
Property and equipment, net	86,076	93,816
FCC licenses	1,464,191	1,438,448
Goodwill	658,833	661,067
Other assets, net	17,457	20,142
Total assets	\$ 2,333,325	\$ 2,315,698
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, accrued liabilities and other liabilities	\$ 84,773	\$ 32,295
Long-term liabilities:		
Senior debt	322,500	286,000
Convertible subordinated notes	330,000	330,000
Other long-term liabilities, less current portion	22,296	38,968
Deferred income tax liabilities	299,057	248,052
Total liabilities	1,058,626	935,315
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value authorized, 200,000,000 shares at December 31, 2005 and 2004; no shares issued or outstanding at December 31, 2005 and 2004		
Common stock, \$.01 par value authorized, 500,000,000 shares at December 31, 2005 and 2004; issued, 133,752,212 and 132,519,969 shares at December 31, 2005 and 2004; outstanding, 114,026,626 and 124,869,719 shares at December 31, 2005 and 2004	1,338	1,325
Treasury stock, at cost, 19,725,586 and 7,650,250 shares at December 31, 2005 and 2004	(266,162)	(108,235)
Additional paid-in capital	1,641,370	1,645,691
Deferred compensation	(13,807)	(601)
Accumulated deficit	(88,040)	(157,797)
Total shareholders' equity	1,274,699	1,380,383
Total liabilities and shareholders' equity	\$ 2,333,325	\$ 2,315,698

See accompanying notes to consolidated financial statements.



**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Statements of Operations****(in thousands, except share amounts)**

	Year Ended December 31,		
	2005	2004	2003
Net broadcasting revenue	\$ 419,907	\$ 411,495	\$ 371,509
Operating Expenses:			
Cost of revenues, exclusive of depreciation and amortization shown separately below	118,949	116,579	99,832
Selling, general and administrative	118,489	118,611	112,090
Corporate general and administrative	11,919	11,239	10,094
Corporate non-cash stock compensation	3,444	4,327	10,339
Local marketing agreement fees	1,723	2,081	2,405
Depreciation and amortization	22,346	101,270	140,659
Non-cash charge related to contract obligations		16,449	
Other, net	(353)	(776)	53
Operating expenses	276,517	369,780	375,472
Operating income (loss)	143,390	41,715	(3,963)
Non-operating expenses:			
Interest expense, net, including amortization of debt issuance costs of \$1,839, \$1,976 and \$3,036, respectively	21,137	17,345	48,254
Write off of deferred financing costs due to extinguishment of debt		13,615	9,345
Non-operating expenses, net	21,137	30,960	57,599
Income (loss) before income taxes	122,253	10,755	(61,562)
Income tax expense (benefit)	52,496	(63,813)	28,008
Net income (loss)	\$ 69,757	\$ 74,568	\$ (89,570)
Net income (loss) per share basic	\$ 0.59	\$ 0.58	\$ (0.83)
Net income (loss) per share diluted	\$ 0.55	\$ 0.54	\$ (0.83)
Weighted average common shares outstanding:			
Basic	119,233,824	129,191,384	107,359,859
Diluted	134,534,213	143,378,684	107,359,859

See accompanying notes to consolidated financial statements.

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Statements of Shareholders' Equity**

(in thousands, except share amounts)

	Common Shares	Amount	Common Stock Class A Shares	Amount	Class B Shares	Amount	Additional Paid-in Capital	Shareholder Notes	Deferred Compensation	Accumulated Deficit	Total Shareholders Equity
Balances at January 1, 2003		\$	96,134,329	\$ 961	3,957,228	\$ 40	\$ 1,026,625	\$ (2,989)	\$ (15,267)	\$ (142,795)	\$ 866,575
Net loss										(89,570)	(89,570)
Interest on shareholder notes								(124)			(124)
Deferred stock compensation									10,339		10,339
Issuance of Class B common stock					94,400	1	499				500
Repurchase of Class B common stock					(1,199,957)	(12)	(4,188)	766			(3,434)
Conversion of Class B common stock to Class A common stock			1,477,161	15	(2,851,671)	(29)	14				
Redesignation of Class A common stock to shares of common stock	97,611,490	976	(97,611,490)	(976)							
Issuance of shares of common stock in connection with initial public offering, net of costs incurred	25,300,000	253					447,711				447,964
Exercise of stock options, net of costs incurred	7,250						101				101
Repurchase of unvested shares of common stock	(53,271)						(359)	452			93
Balances at December 31, 2003	122,865,469	\$ 1,229		\$		\$	\$ 1,470,403	\$ (1,895)	\$ (4,928)	\$ (232,365)	\$ 1,232,444

See accompanying notes to consolidated financial statements.

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Statements of Shareholders' Equity**

(in thousands, except share amounts)

	Common Stock		Treasury Stock		Additional	Shareholder	Deferred	Accumulated	Total
	Common	Amount	Shares	Amount	Paid-in	Notes	Compensation	Deficit	Shareholders'
	Shares				Capital				Equity
Balances at January 1, 2004	122,865,469	\$ 1,229		\$	\$ 1,470,403	\$ (1,895)	\$ (4,928)	\$ (232,365)	\$ 1,232,444
Net income								74,568	74,568
Interest on shareholder notes						(41)			(41)
Deferred stock compensation							4,327		4,327
Issuance of shares of common stock in connection with secondary public offering, net of costs incurred	9,630,000	96			175,573				175,669
Repayment of shareholder notes						1,283			1,283
Exercise of stock options, net of costs incurred	24,500				368				368
Repurchase of treasury stock			(7,650,250)	(108,235)					(108,235)
Balances at December 31, 2004	132,519,969	1,325	(7,650,250)	(108,235)	1,646,344	(653)	(601)	(157,797)	1,380,383
Net income								69,757	69,757
Interest on shareholder notes						(32)			(32)
Issuance of restricted shares	1,250,000	13			16,637		(16,650)		
Deferred stock compensation							3,444		3,444
Repurchase of unvested shares	(17,757)				(120)				(120)
Repayment of shareholder notes						104			104
Exercise of stock options, net of costs incurred and net of taxes					(13)				(13)
Dividends					(20,903)				(20,903)
Repurchase of treasury stock			(12,139,172)	(158,823)					(158,823)
Reissuance of treasury stock			63,836	896	6				902
Balances at December 31, 2005	133,752,212	\$ 1,338	(19,725,586)	\$ (266,162)	\$ 1,641,951	\$ (581)	\$ (13,807)	\$ (88,040)	\$ 1,274,699

See accompanying notes to consolidated financial statements.



**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(in thousands)

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	\$ 69,757	\$ 74,568	\$ (89,570)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	22,346	101,270	140,659
Write off of deferred financing costs due to extinguishment of debt		13,615	9,345
Amortization of debt issuance costs	1,839	1,976	3,036
Non-cash charge related to contract obligations		16,449	
Gain on sale of assets	(372)	(776)	(611)
Deferred income taxes	49,635	(66,369)	26,587
Stock compensation expense	3,444	4,327	10,339
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(541)	3,358	(10,056)
Prepaid expenses and other current assets	47	(317)	71
Accounts payable, accrued liabilities and other liabilities	(5,382)	(955)	(5,765)
<b>Net cash provided by operating activities</b>	<b>140,773</b>	<b>147,146</b>	<b>84,035</b>
Cash flows from investing activities:			
Capital expenditures	(8,112)	(8,948)	(6,162)
Cash paid to acquire stations	(49,933)	(157,540)	(179,681)
Proceeds from sale of assets	12,620	8,366	11,076
Other assets, net	(110)	1,739	358
<b>Net cash used in investing activities</b>	<b>(45,535)</b>	<b>(156,383)</b>	<b>(174,409)</b>
Cash flows from financing activities:			
Retirement of subordinated debt		(500,000)	
Issuance of convertible subordinated notes		330,000	
Debt issuance costs		(11,075)	(884)
Proceeds from senior debt	126,000	495,500	270,500
Principal payments on senior debt	(89,500)	(377,611)	(623,389)
Principal payments on other long-term liabilities	(504)	(633)	(443)
Repayment of shareholder notes	51	1,283	1,218
Proceeds from public stock offerings, net of costs incurred		175,669	448,648
Exercise of stock options, net of costs incurred	(13)	367	116
Net repurchases of unvested shares of common stock	(67)		
Net repurchases of shares of Class B common stock and common stock			(4,059)
Purchase of shares held in treasury	(127,933)	(106,782)	
<b>Net cash (used in) provided by financing activities</b>	<b>(91,966)</b>	<b>6,718</b>	<b>91,707</b>
Net increase (decrease) in cash and cash equivalents	3,272	(2,519)	1,333
Cash and cash equivalents, beginning of period	948	3,467	2,134
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,220</b>	<b>\$ 948</b>	<b>\$ 3,467</b>



See accompanying notes to consolidated financial statements.

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)**

(in thousands)

	Year Ended December 31,		
	2005	2004	2003
<i>Supplemental schedule of investing activities</i>			
The Company completed various radio station acquisitions during the years ended December 31, 2005, 2004 and 2003. In connection with these acquisitions, certain liabilities were assumed.			
Fair value of assets acquired	\$ 50,573	\$ 158,453	\$ 187,722
Cash paid to acquire stations	(49,933)	(157,540)	(179,681)
Liabilities assumed	\$ 640	\$ 913	\$ 8,041

On July 29, 2004, the Company completed its exchange of radio stations in the Bloomington, IL market for stations in the Harrisburg/Lancaster, PA market and the Erie, PA market, plus a cash payment to the Company. The non-cash portion of this transaction of \$39,471 is not reflected in the table above.

*Supplemental schedule of cash flow information*

<b>Cash Payments:</b>			
Interest	\$ 18,524	\$ 12,753	\$ 47,843
Income taxes	3,079	2,131	1,298
<b>Barter Transactions:</b>			
Equipment purchases through barter	378	338	234
Barter Revenue included in gross broadcasting revenue	9,636	9,768	7,467
Barter Expenses included in cost of revenues	9,352	9,193	7,356
<b>Other Non-Cash Transactions:</b>			
FCC license asset in exchange for other long-term liabilities			12,000
Reduction in other long-term liabilities in exchange for FCC license asset	12,000		
Net change in accrual of treasury stock repurchases	30,890	1,453	
Accrual of dividends	20,903		

See discussion of additional non-cash items in Note 9.

See accompanying notes to consolidated financial statements.

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**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**1. Description of the Company**

In January 2001, Citadel Broadcasting Corporation, formed by affiliates of Forstmann Little & Co. ( FL&Co. ), entered into an agreement with Citadel Communications Corporation ( Citadel Communications ) to acquire substantially all of the outstanding common stock of Citadel Communications (the 2001 Acquisition ) in a leveraged buyout transaction. Citadel Broadcasting Company, a wholly-owned subsidiary of Citadel Communications, is referred to as Citadel Broadcasting and in July 2004, Citadel Communications was liquidated into Citadel Broadcasting Corporation.

On February 6, 2006, the Company and a wholly owned subsidiary entered into an Agreement and Plan of Merger (the ABC Radio Merger Agreement ) with The Walt Disney Company ( TWDC ) and ABC Chicago FM Radio, Inc. ( ABC Radio ), a Delaware corporation and wholly owned subsidiary of TWDC (the Merger ). Pursuant to and subject to the terms and conditions contained in the ABC Radio Merger Agreement, the Company will combine ABC Radio, which includes 22 radio stations and the ABC Radio Network, with the Company. The merger and the issuance of the Company s common stock in the merger have been approved by holders of record of a majority of the Company s common stock. The combination is structured as a reverse Morris Trust transaction. Prior to the Merger, TWDC will distribute ownership of ABC Radio to TWDC shareholders in either a spin-off or split-off transaction or a combination of the two. The transaction is valued at approximately \$2.7 billion. The value of the transaction is comprised of \$1.3 billion in Company common stock to be received by TWDC shareholders and cash to be retained by TWDC, which represents the proceeds of debt to be incurred by ABC Radio prior to the spin-off or split-off from TWDC. The amount of the cash to be retained by TWDC is expected to be between \$1.4 billion and \$1.65 billion depending on the market price of the Company s common stock over a measurement period ending prior to closing. Immediately after closing of the merger transactions and subject to adjustments described in the ABC Radio Merger Agreement, the former holders of TWDC common stock will own approximately 52% of the common stock of the combined company, which will be named Citadel Communications.

The Company has received a commitment from various lenders to provide debt financing to the Company in connection with the Company s completion of the Merger.

Pursuant to the ABC Radio Merger Agreement, the Company will declare a special dividend payable immediately prior to the closing of the Merger to holders of common stock of the Company of record at a date to be set prior to the closing of the Merger. The amount of the dividend will be determined based on the market price of the Company s common stock over a measurement period ending prior to closing.

Consummation of the merger is subject to customary closing conditions, including the absence of certain legal impediments to the consummation of the merger, the expiration or termination of any required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the effectiveness of certain filings with the SEC, the receipt of consent to, or rulings on, the transactions from the Federal Communications Commission and the Internal Revenue Service and the receipt of certain tax opinions. If the FCC deems there to be a substantial change in control (as defined under the FCC s rules and policies) as a result of the transaction, the Company may be required to divest up to eleven stations in seven markets in order to obtain FCC approval to consummate the merger. The Company has sought approval from the FCC to transfer any such stations to a divestiture trust in the event divestiture is required. The Company does not believe these divestitures, if required, would be material to its business. The ABC Merger Agreement contains certain termination rights and provides that, upon the termination of the ABC Merger Agreement under specified circumstances, a party may be required to pay to the other party a termination fee in the amount of \$81 million. In addition, if the transaction is terminated under certain circumstances, TWDC may be required to pay the Company up to \$15 million as a reimbursement of its expenses.

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****2. Summary of Significant Accounting Policies***Description of Business*

Citadel Broadcasting Corporation was incorporated in Delaware and owns all of the issued and outstanding common stock of Citadel Broadcasting. Citadel Broadcasting owns and operates radio stations and holds Federal Communications Commission ( FCC ) licenses in 24 states. Radio stations serving the same geographic area (i.e., principally a city or combination of cities) are referred to as a market. The Company aggregates the markets in which it operates into one reportable segment as defined by Statement of Financial Accounting Standards ( SFAS ) No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

*Principles of Consolidation and Presentation*

The accompanying consolidated financial statements include Citadel Broadcasting Corporation, Citadel Communications (until it was liquidated into Citadel Broadcasting Corporation in July 2004) and Citadel Broadcasting (collectively the Company ). All significant intercompany balances and transactions have been eliminated in consolidation.

*Reclassifications*

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

*Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenue and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less, at the time of purchase, to be cash equivalents.

*Allowance for Doubtful Accounts*

The Company recognizes an allowance for bad debts based on historical experience of bad debts as a percent of its aged outstanding receivables, adjusted for improvements or deteriorations in current economic conditions. Accounts receivable, net on the accompanying consolidated balance sheets consisted of the following:

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>	
Trade receivables	\$ 77,954	\$ 78,285
Allowance for doubtful accounts	(2,917)	(3,377)
Accounts receivable, net	\$ 75,037	\$ 74,908



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**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

*Derivative Instruments and Hedging Activities*

The Company has not entered into any agreements related to derivative instruments for the years ended December 31, 2005, 2004 and 2003.

*Property and Equipment*

Assets acquired in business combinations are accounted for using the purchase method of accounting and are recorded at their estimated fair value as of the acquisition date. Property and equipment additions are recorded at cost. Depreciation of property and equipment is determined using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are capitalized and amortized using the straight-line method over the shorter of the lease terms or the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If the undiscounted cash flows are less than the carrying amount of the asset, the asset is considered to be impaired, and the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

*Intangible Assets*

Intangible assets consist primarily of FCC broadcast licenses and goodwill, but also include certain other intangible assets acquired in purchase business combinations. Upon the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 on January 1, 2002, the Company ceased amortization of goodwill and FCC licenses, which are indefinite-lived intangible assets. Other intangible assets are amortized on a straight-line basis over the contractual lives or estimated lives of the assets.

The Company utilizes independent appraisals in determining the fair value of FCC licenses and goodwill for significant acquisitions. These appraisals principally use the discounted cash flow methodology to determine the value of the FCC licenses. This income approach consists of a quantitative model, which incorporates variables such as market advertising revenues, market revenue share projections, anticipated operating profit margins and various discount rates. The variables used in the analysis reflect historical station and advertising market growth trends, as well as anticipated performance and market conditions.

The Company evaluates its FCC licenses for impairment as of October 1, its annual impairment testing date, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The Company may engage a third party appraiser to assist in this evaluation. FCC licenses are evaluated for impairment at the market level. If the carrying amount of FCC licenses is greater than their estimated fair value in a given market, the carrying amount of FCC licenses in that market is reduced to its estimated fair value. The Company's impairment testing for goodwill in each of its reporting units (markets) is also performed as of October 1 or more frequently if certain circumstances are present. The evaluation is determined based primarily on discounted expected future cash flows to be generated from each market. These cash flows are then compared to the net assets of each market. If the cash flows exceed the net assets of the market, then no impairment of goodwill exists.

The New Orleans market sustained damage as a result of Hurricane Katrina ( Katrina ) in August 2005 and the subsequent flooding of the area. Since Katrina represented a potential impairment indicator for the affected

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**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

market, the Company performed its impairment analysis of FCC licenses and goodwill in the New Orleans market in the third quarter of 2005, as well as at its annual testing date in the fourth quarter of 2005. The Company determined that no impairment of intangible assets had occurred during 2005. If actual market conditions are less favorable than those projected by the Company, or if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the Company's FCC license or goodwill for the New Orleans market below the amounts reflected in the balance sheet, the Company may be required to recognize impairment charges in future periods.

Although the full extent of the damage to the Company's stations from Katrina is still under evaluation, the Company believes that it is insured for certain losses resulting from Katrina. The Company believes recovery of insurance proceeds under its relevant policies is probable. The Company expects to file claims for such damage and has recorded as operating expenses the amount of its anticipated deductible of \$0.3 million in Other, net in the accompanying consolidated statements of operations. One of the Company's stations in the New Orleans market was unable to broadcast for an extended period of time as a result of Katrina and the general disruption of the local economy, which negatively impacted revenues in 2005. The Company maintains business interruption insurance and expects to be reimbursed for a portion of lost net income as a result of Katrina. Although the determination of the final amount of the claim remains open, the Company received \$1.0 million as partial payment of its business interruption proceeds in December 2005. This amount offset market operating expenses incurred, and the remainder is included in net revenues in the accompanying consolidated income statement.

The Company has performed its annual impairment analysis of its FCC licenses and goodwill as of the October 1 annual testing date and has determined that no impairment of intangible assets had occurred as of December 31, 2005. These analyses make various assumptions about growth rates and market conditions in determining whether an impairment exists. If actual market conditions are less favorable than those projected by the industry or the Company, or if an event occurs or circumstances change that would, more likely than not, reduce the fair value of the Company's FCC licenses or goodwill below the amounts reflected in the balance sheet, the Company may be required to recognize impairment charges in future periods.

*FCC Licenses and Renewal*

Radio stations operate under renewable broadcasting licenses that are ordinarily granted by the FCC for maximum terms of eight years. Licenses are renewed through an application to the FCC. A station may continue to operate beyond the expiration date of its license if a timely filed license application is pending. Petitions to deny license renewals can be filed by interested parties, including members of the public. These petitions may raise various issues before the FCC. The FCC is required to hold hearings on renewal applications if the FCC is unable to determine that renewal of a license would serve the public interest, convenience and necessity, or if a petition to deny raises a substantial and material question of fact as to whether the grant of the renewal application would be inconsistent with the public interest, convenience and necessity. If, as a result of an evidentiary hearing, the FCC determines that the licensee has failed to meet various requirements and that no mitigating factors justify the imposition of a lesser sanction, then the FCC may deny a license renewal application. Historically, FCC licenses have generally been renewed, although the Company cannot be assured that all of its licenses will be renewed. The non-renewal, or renewal with substantial conditions or modifications, of one or more of the Company's FCC radio station licenses could have a material adverse effect on the Company's business, financial position, and results of operations.

One of the Company's local marketing agreements does not comply with the FCC's new ownership limits. The Company will be required to terminate this agreement or otherwise come into compliance with the FCC's ownership rules by September 3, 2006. The Company does not believe that termination of this agreement or its

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actions to come into compliance with the new rules with respect to this agreement will have a material impact on the Company's business, financial position or results of operations.

*Debt Issuance Costs*

The costs related to the issuance of debt are capitalized as other assets and amortized to interest expense using the effective interest rate method over the term of the related debt.

*Stock Option Plan*

As provided under SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company has elected to continue to apply the provisions of Accounting Principles Board (APB) Opinion No. 25 *Accounting for Stock Issued to Employees*, and provide the pro forma disclosure provisions of SFAS No. 123 to its stock-based awards to employees. For those awards that result in the recognition of compensation expense under APB Opinion No. 25, the Company records expense for each tranche of the award over the vesting period applicable to such tranche, which results in the accelerated recognition of compensation expense.

At December 31, 2005, the Company has certain stock-based employee compensation plans, which are described more fully in Note 9. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Except as discussed in Note 9, no stock-based employee compensation cost is reflected in net income (loss), as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation:

	Year Ended December 31,		
	2005	2004	2003
	(in thousands, except per share amounts)		
Net income (loss), as reported	\$ 69,757	\$ 74,568	\$ (89,570)
Add: Corporate non-cash stock compensation expense	3,444	4,327	10,339
Deduct: Total stock-based employee compensation expense determined under fair value based method	(11,884)	(12,061)	(13,586)
Incremental tax impact	3,334	5,089	
<b>Net income (loss), pro forma</b>	<b>\$ 64,651</b>	<b>\$ 71,923</b>	<b>\$ (92,817)</b>
Basic net income (loss) per common share:			
As reported	\$ 0.59	\$ 0.58	\$ (0.83)
Pro forma	\$ 0.54	\$ 0.56	\$ (0.86)
Diluted net income (loss) per common share:			
As reported	\$ 0.55	\$ 0.54	\$ (0.83)
Pro forma	\$ 0.51	\$ 0.52	\$ (0.86)

The incremental tax impact shown in the table above represents the effect of the additional tax benefit that the Company would have accumulated in prior and current periods had compensation expense related to its stock options been recognized utilizing the fair value method.

*Income Taxes*

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to





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differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Net Income (Loss) Per Share*

Net income (loss) per share is calculated in accordance with SFAS No. 128, *Earnings Per Share*, which requires presentation of basic and diluted net income (loss) per share. Basic net income per share excludes dilution, and for the years ended December 31, 2005 and 2004 is computed by dividing net income by the weighted average number of common shares outstanding during the period. During the years ended December 31, 2005 and 2004, diluted net income per share is computed in the same manner as basic net income per share after assuming issuance of common stock for all potentially dilutive equivalent shares, which includes (1) stock options (using the treasury stock method), (2) the effect of unvested shares of common stock outstanding, and (3) the conversion of the Company's convertible subordinated notes after eliminating from net income the interest expense, net of tax, incurred on the convertible subordinated notes. Anti-dilutive instruments are not considered in this calculation. During the year ended December 31, 2003, basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding, which includes the 96,134,329 shares of Class A common stock outstanding until July 31, 2003 and 122,911,490 shares of common stock outstanding after the Company's recapitalization and initial public offering (see Note 9), as well as common stock transactions that occurred in the fourth quarter of 2003. The Company had options to issue 9,168,641, 7,771,125 and 5,958,125 shares of common stock outstanding as of December 31, 2005, 2004 and 2003. However, these options and, prior to the recapitalization, outstanding shares of Class B common stock (see Note 9) have been excluded from the calculations of diluted net loss per share for the year ended December 31, 2003 as their effect is antidilutive during that period.

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share computation for the years ended December 31, 2005 and 2004:

<i>(In thousands, except per share data)</i>	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>NUMERATOR:</b>		
Income available to common shareholders	\$ 69,757	\$ 74,568
Effect of dilutive securities:		
Convertible subordinated notes	3,743	3,271
<b>Numerator for net income per common share diluted</b>	<b>\$ 73,500</b>	<b>\$ 77,839</b>
<b>DENOMINATOR:</b>		
Weighted average common shares	119,234	129,191
Effect of dilutive securities:		
Options	1,995	2,944
Restricted shares	349	
Convertible subordinated notes	12,956	11,244
<b>Denominator for net income per common share diluted</b>	<b>134,534</b>	<b>143,379</b>
<b>Net income per common share:</b>		
Net income Basic	\$ 0.59	\$ 0.58

Net income Diluted	\$ 0.55	\$ 0.54
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**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Options to purchase 4,562,656 and 2,553,745 shares of common stock were not included in the computation of diluted earnings per share for the years ended December 31, 2005 and 2004 because their effect would have been antidilutive.

*Revenue Recognition*

Broadcasting operations derive revenue primarily from the sale of program time and commercial announcements to local, regional and national advertisers. Net broadcasting revenue is recorded net of agency commissions and is recognized when the programs and commercial announcements are broadcast. Agency commissions are calculated based on a stated percentage applied to gross broadcasting revenue.

Historically, the Company has managed its portfolio of radio stations through selected acquisitions, dispositions and exchanges, as well as through the use of local marketing agreements ( LMAs ) and joint sales agreements ( JSAs ). Under an LMA or a JSA, the company operating a station provides programming or sales and marketing or a combination of such services on behalf of the owner of a station. The broadcast revenue and operating expenses of stations operated by the Company under LMAs and JSAs have been included in the Company's results of operations since the respective effective dates of such agreements.

*Barter Transactions*

Barter contracts are agreements entered into under which the Company provides commercial air-time in exchange for goods and services used principally for promotions, sales and other business activities. The Company determines the amount of revenue for barter transactions based on fair value received for similar commercial air-time from cash customers.

*Advertising Expenses*

Advertising expenses are expensed as incurred.

*Business and Credit Concentrations*

In the opinion of management, credit risk with respect to receivables is limited due to the large number of customers and the geographic diversification of the Company's customer base. The Company performs credit evaluations of its customers and believes that adequate allowances for any uncollectible receivables are maintained. At December 31, 2005, and 2004, no receivable from any customer exceeded 5% of accounts receivable. For the years ended December 31, 2005, 2004 and 2003, no single customer accounted for more than 10% of net broadcasting revenue.

*Recent Accounting Pronouncements*

In December 2004, the FASB issued Statement No. 123(R), *Share-Based Payment*. SFAS No. 123(R) replaces FASB 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost over the period during which an employee is required to provide service in exchange for the award.

In March 2005, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin Topic 14, *Share-Based Payment* ( SAB 107 ). SAB 107 assists registrants in their implementation of SFAS No. 123(R), *Share-Based Payment*, and does not change any of the requirements therein. Among other things, SAB 107

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**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

describes the SEC staff's expectations in determining the assumptions that underlie the fair value estimates and discusses the interaction of Statement 123(R) with certain existing SEC guidance. On April 14, 2005, the SEC announced the adoption of a rule that defers the required effective date of SFAS No. 123(R), *Share-Based Payment*. The SEC rule provides that SFAS No. 123(R) is now effective for the Company beginning January 1, 2006. The Company intends to adopt SFAS No. 123(R) using the modified prospective application method. Upon adoption, unrecognized non-cash stock compensation expense related to unvested options outstanding as of December 31, 2005 will be recorded over the remaining vesting periods of the options. The Company anticipates that the adoption of SFAS No. 123(R) will result in an increase in operating expenses in 2006.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, as an interpretation of SFAS No. 143. FIN No. 47 clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143 and was effective for the Company no later than December 31, 2005. The adoption of FIN No. 47 did not have a material impact on the Company's financial position, results of operations or cash flows.

On May 30, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, as a replacement of Accounting Principles Board Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and applies to all voluntary changes in accounting principle, as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect adoption of SFAS No. 154 to have a material impact on its financial position, results of operations or cash flows.

**3. Acquisitions and Dispositions**

**2005 Acquisitions and Dispositions**

*Completed Acquisitions*

During the year ended December 31, 2005, the Company completed acquisitions, including the following:

Two radio stations in the Providence, RI market for an aggregate cash purchase price of approximately \$14.7 million.

Six radio stations in the Tuscaloosa, AL market and one radio station in the Birmingham, AL market, all of which had been operating under a local marketing agreement since March 1, 2005, for an aggregate cash purchase price of approximately \$29.5 million. All of the Company's acquisitions have been accounted for using the purchase method of accounting. As such, the accompanying consolidated balance sheets include the acquired assets and liabilities and the accompanying consolidated statements of operations include the results of operations of the acquired entities from their respective dates of acquisition.

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Below is a table that details the purchase price allocations for all significant acquisitions completed in 2005. The purchase price allocations were based upon information available as of December 31, 2005.

Asset Description	Acquisition of Tuscaloosa/ Birmingham Radio Stations	Other Radio Station Acquisitions (in thousands)	Total	Asset lives
Property and equipment, net	\$ 1,230	\$ 473	\$ 1,703	3-10 years
FCC licenses	26,784	19,871	46,655	non-amortizing
Goodwill	918	75	993	non-amortizing
Other intangibles, net	592	630	1,222	6 to 84 months
Liabilities assumed	(5)	(635)	(640)	
Total aggregate purchase price	\$ 29,519	\$ 20,414	\$ 49,933	

*Completed Dispositions*

During the year ended December 31, 2005, the Company sold six radio stations for an aggregate price of approximately \$12.8 million, including one of the stations that had been acquired in the Providence, RI market.

*Pending Acquisitions and Dispositions*

As of December 31, 2005, the Company has agreements to acquire radio stations for an aggregate purchase price of approximately \$8.1 million.

In February 2006, the Company also entered into the ABC Radio Merger Agreement as discussed in Note 1.

Additionally, on November 5, 2002, the Company entered into an agreement in the form of an option, exercisable through December 31, 2006, to purchase a radio station in the Oklahoma City, OK market for an aggregate cash purchase price of the greater of \$15.0 million or 85% of the fair market value of the radio station, as determined by an independent appraisal. Under a local marketing agreement, the Company operates the station during the option period.

On July 2, 2003, the Company entered into a local marketing agreement related to a radio station in Knoxville, TN. During the three-year term of this agreement, the current station owner has the option, but not the obligation, to require the Company to purchase all of the assets of the station for \$12.0 million. In accordance with FIN No. 46, the Company has determined that this is a variable interest entity and that the Company is the primary beneficiary of the variable interest entity. Accordingly, the entity has been included in the consolidated financial statements of the Company since August 2003. During the second quarter of 2005, the agreement was renegotiated to terminate the put option. Accordingly, as of December 31, 2005, the \$12.0 million FCC asset and related long-term obligation are no longer reflected in the Company's consolidated balance sheet.

**2004 Acquisitions and Dispositions***Completed Acquisitions*

During the year ended December 31, 2004, the Company completed six acquisitions for a total of ten radio stations with an aggregate cash purchase price of approximately \$157.5 million, including the acquisition of four radio stations in the Memphis, TN market and two radio stations in the Springfield, MA market for an aggregate cash purchase price of approximately \$122.2 million.



**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Additionally, the Company completed its agreement to exchange five of its radio stations in the Bloomington, IL market for two stations in the Harrisburg/Lancaster, PA market and four stations in the Erie, PA market, plus a cash payment to the Company. This transaction resulted in a gain of approximately \$1.9 million, which is included in other, net, in the consolidated statements of operations.

All of the Company's acquisitions have been accounted for using the purchase method of accounting. As such, the accompanying consolidated financial statements include the acquired assets and liabilities and the results of operations of the acquired entities from their respective dates of acquisition.

For the completed acquisitions, the aggregate purchase price was allocated as follows, and the final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price are reflected in 2005 balances:

<b>Asset Description</b>	<b>Acquisition of Memphis Radio Stations</b>	<b>Acquisition of Erie and Lancaster, PA Radio Stations</b>	<b>Other Radio Station Acquisitions (in thousands)</b>	<b>Total</b>	<b>Asset lives</b>
Property and equipment, net	\$ 3,832	\$ 2,329	\$ 2,161	\$ 8,322	3-25 years
FCC licenses	62,713	30,645	50,540	143,898	non-amortizing
Goodwill	33,156	5,302	4,760	43,218	non-amortizing
Other intangibles, net	801	1,195	442	2,438	less than one year
Other assets			48	48	
Liabilities assumed	(290)		(623)	(913)	
<b>Total aggregate purchase price</b>	<b>\$ 100,212</b>	<b>\$ 39,471</b>	<b>\$ 57,328</b>	<b>\$ 197,011</b>	

*Completed Dispositions*

During the year ended December 31, 2004, the Company sold nine radio stations for an aggregate price of approximately \$4.8 million. Additionally, the Company completed its agreement to exchange five of its radio stations in the Bloomington, IL market for two stations in the Harrisburg/Lancaster, PA market and four stations in the Erie, PA market, plus a cash payment to the Company.

**2003 Acquisitions and Dispositions***Completed Acquisitions*

During the year ended December 31, 2003, the Company completed seven acquisitions for a total of twenty radio stations with an aggregate purchase price of approximately \$179.7 million, including, on September 8, 2003, the acquisition from Wilks Broadcasting LLC (Wilks) of five radio stations in the Des Moines, IA market, four radio stations in the New Orleans, LA market, and two radio stations in the Springfield, MO market for an aggregate cash purchase price of approximately \$133.3 million.

All of the Company's acquisitions have been accounted for using the purchase method of accounting. As such, the accompanying consolidated balance sheets include the acquired assets and liabilities and the accompanying consolidated statements of operations include the results of operations of the acquired entities from their respective dates of acquisition.



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For the completed acquisitions, the aggregate purchase price was allocated as follows, and the final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price are reflected in 2004 balances:

Asset Description	Acquisition		Total (in thousands)	Asset lives
	from Wilks	Other Acquisitions		
Property and equipment, net	\$ 3,619	\$ 4,811	\$ 8,430	3-25 years
FCC licenses	122,316	40,179	162,495	non-amortizing
Goodwill	9,566	4,246	13,812	non-amortizing
Other intangibles, net	838	2,147	2,985	6 to 36 months
Liabilities assumed	(3,014)	(5,027)	(8,041)	
Total aggregate purchase price	\$ 133,325	\$ 46,356	\$ 179,681	

*Completed Dispositions*

During the year ended December 31, 2003, the Company completed six dispositions of a total of twelve radio stations for an aggregate price of approximately \$16.6 million, including the sale of five stations in Tyler/Longview, TX for an aggregate purchase price of \$6.0 million, of which \$5.5 million was in the form of a note. Due to the limited initial investment made by the buyer of the Tyler/Longview, TX stations, this transaction was not accounted for as a sale when consummated. As of December 31, 2005, payments on the note are being paid in accordance with the payment schedule. Any related gain on sale will not be recognized until the Company determines that the buyer has made a significant financial investment.

**Pro Forma**

The following summarized unaudited pro forma results of operations for the years ended December 31, 2005 and 2004 assume that all significant radio station acquisitions and dispositions during the years ended December 31, 2005 and 2004 occurred as of January 1 of each period presented. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the significant radio station acquisitions and dispositions occurred as of January 1 of each period presented or the results of operations which may occur in the future.

	Pro Forma	
	Years Ended December 31, 2005	2004
	(in thousands, except per share amounts)	
Net broadcasting revenue	\$ 420,263	\$ 418,866
Net income	69,495	74,316
Basic net income per common share	\$ 0.58	\$ 0.58
Diluted net income per common share	\$ 0.54	\$ 0.54

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****4. Property and Equipment**

Property and equipment consisted of the following at December 31:

	2005	2004	Estimated
	(in thousands)		Useful Life
Land	\$ 19,676	\$ 19,676	
Buildings and improvements	30,791	29,570	3 to 25 years
Transmitters, towers and studio equipment	85,232	78,964	5 to 10 years
Office furniture, equipment and vehicles	26,898	23,639	2 to 12 years
Construction in progress	3,664	3,168	
	166,260	155,017	
Less accumulated depreciation and amortization	(80,184)	(61,201)	
	\$ 86,076	\$ 93,816	

**5. Intangible Assets**

Intangible assets consisted of the following at December 31:

Amortizable Intangible Assets	2005	2004
	(in thousands)	
Other intangible assets, gross	\$ 8,581	\$ 19,053
Less accumulated amortization	(4,735)	(14,510)
Other intangible assets, net	\$ 3,846	\$ 4,543

Included in other intangible assets, net as of December 31, 2005 and 2004 was \$0.1 million and \$0.2 million, respectively, related to the Company's advertiser base asset. As of December 31, 2005, the weighted average amortization period for the advertiser base asset and the remaining balance of other intangible assets is less than one year and approximately 15 years, respectively.

Unamortizable Intangible Assets	December 31, 2005	December 31, 2004
	(in thousands)	
FCC licenses	\$ 1,464,191	\$ 1,438,448
Goodwill	658,833	661,067
	\$ 2,123,024	\$ 2,099,515

The changes in the carrying amounts of FCC licenses and goodwill for the years ended December 31, 2004 and 2005 are as follows:

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	FCC Licenses	Goodwill
	(in thousands)	
Balance, January 1, 2004	\$ 1,349,808	\$ 608,646
Station acquisitions	143,898	43,218
Station dispositions	(31,046)	(11,581)
Other changes	(24,212)	20,784
Balance, December 31, 2004	1,438,448	661,067
Station acquisitions	46,655	993
Station dispositions and other deletions	(20,912)	(3,227)
Balance, December 31, 2005	\$ 1,464,191	\$ 658,833

**Table of Contents****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Station dispositions and other deletions for the year ended December 31, 2005 include \$12.0 million related to a local marketing agreement for a radio station in Knoxville, TN where the owner had the option to require the Company to purchase all of the assets of the station for \$12.0 million. Accordingly, the entity had been included in the Company's consolidated financial statements since August 2003. During the second quarter of 2005, the agreement was renegotiated to terminate the put option. Accordingly, as of December 31, 2005, the \$12.0 million FCC asset and related long-term obligation are no longer reflected in the accompanying consolidated balance sheet.

Other changes in the balances of FCC licenses and goodwill for the year ended December 31, 2004 represent primarily adjustments resulting from the finalization of preliminary purchase price allocations.

The amount of the amortization expense for definite-lived intangible assets for the years ended December 31, 2005, 2004 and 2003 was approximately \$2.3 million, \$81.4 million, and \$121.5 million, respectively. As of December 31, 2005, other intangibles, net on the accompanying consolidated balance sheet reflect \$3.8 million in unamortized definite-lived intangible assets.

During the third quarter of 2004, the Company reevaluated the remaining useful life of its advertiser base asset. The Company revised the useful life, which resulted in additional amortization expense of approximately \$8.0 million in the second half of 2004.

The following table presents the Company's estimate of amortization expense for each of the five succeeding years ended December 31 for definite-lived intangible assets:

	<b>Amortization Expense (in thousands)</b>
2006	\$ 825
2007	283
2008	231
2009	210
2010	195
	\$ 1,744

**6. Accounts Payable, Accrued Liabilities and Other Liabilities**

Accounts payable, accrued liabilities and other liabilities at December 31 consisted of the following:

	<b>2005</b>	<b>2004</b>
	<b>(in thousands)</b>	
Accounts payable	\$ 6,304	\$ 4,635
Compensation, commissions and accrued bonuses	5,664	6,163
Interest	4,517	3,326
Payments received in advance	2,189	