CUMULUS MEDIA INC
Form 10-Q
November 03, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009.

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

For or the transition period from __________ to __________
Commission file number 000-24525
CUMULUS MEDIA, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-4159663**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
3280 Peachtree Road, NW Suite 2300, Atlanta, GA	**30305**
(Address of Principal Executive Offices)	*(ZIP Code)*

(404) 949-0700
(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 30, 2009, the registrant had 41,631,865 outstanding shares of common stock consisting of (i) 35,177,803 shares of Class A Common Stock; (ii) 5,809,191 shares of Class B Common Stock; and (iii) 644,871 shares of Class C Common Stock.

CUMULUS MEDIA INC.
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CUMULUS MEDIA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except for share data)
(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 19,192	$ 53,003
Restricted cash	789	
Accounts receivable, less allowance for doubtful accounts of $1,354 and $1,771, in 2009 and 2008, respectively	39,505	44,199
Prepaid expenses and other current assets	6,326	3,287
Total current assets	65,812	100,489
Property and equipment, net	48,377	55,124
Intangible assets, net	162,995	325,134
Goodwill	57,827	58,891
Other assets	3,182	3,881
Total assets	$ 338,193	$ 543,519
Liabilities and Stockholders Deficit		
Current liabilities:		
Accounts payable and accrued expenses	$ 19,041	$ 20,644
Current portion of long-term debt	38,383	7,400
Total current liabilities	57,424	28,044
Long-term debt	604,062	688,600
Other liabilities	34,235	30,543
Deferred income taxes	22,128	44,479
Total liabilities	$ 717,849	$ 791,666
Stockholders Deficit:		
Preferred stock, 20,262,000 shares authorized, par value $.01 per share, including:		
250,000 shares designated as 13 3/4% Series A Cumulative Exchangeable Redeemable Preferred Stock due 2009, stated value $1,000 per share, 0 shares issued and outstanding in both 2009 and 2008 and 12,000 shares designated as 12% Series B Cumulative Preferred Stock, stated value $10,000 per share, 0 shares issued and outstanding in both 2009 and 2008		
Class A common stock, par value $.01 per share; 200,000,000 shares authorized; 59,572,592 and 59,572,592 shares issued, 35,177,803 and 34,945,290 shares outstanding, in 2009 and 2008, respectively	596	596

Class B common stock, par value $.01 per share; 20,000,000 shares authorized; 5,809,191 shares issued and outstanding in both 2009 and 2008	58	58
Class C common stock, par value $.01 per share; 30,000,000 shares authorized; 644,871 shares issued and outstanding in both 2009 and 2008	6	6
Class A Treasury stock, at cost, 24,394,789 and 24,627,302 shares in 2009 and 2008, respectively	(261,279)	(265,278)
Accumulated other comprehensive income		828
Additional paid-in-capital	966,208	967,676
Accumulated deficit	(1,085,245)	(952,033)
Total stockholders deficit	(379,656)	(248,147)
Total liabilities and stockholders deficit	$ 338,193	$ 543,519

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CUMULUS MEDIA INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except for share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Broadcast revenues	$ 64,127	$ 78,950	$ 183,443	$ 233,478
Management fee from affiliate	1,000	1,000	3,000	3,000
Net revenues	65,127	79,950	186,443	236,478
Operating expenses:				
Station operating expenses (excluding depreciation, amortization and LMA fees)	40,159	50,795	121,690	154,920
Depreciation and amortization	2,650	2,965	8,365	9,386
LMA fees	595	71	1,792	571
Corporate general and administrative (including non-cash stock compensation of $850, $1,015, $2,053, and $3,882, respectively)	5,676	5,006	15,741	14,562
Gain on exchange of assets or stations			(7,204)	
Realized loss on derivative instrument	3,016		3,016	
Impairment of goodwill and intangible assets	173,085		173,085	
Cost associated with terminated transaction		82		1,975
Total operating expenses	225,181	58,919	316,485	181,414
Operating (loss)/income	(160,054)	21,031	(130,042)	55,064
Non-operating income (expense):				
Interest expense	(11,052)	(8,234)	(25,048)	(28,796)
Interest income	3	262	58	873
Terminated transaction fee				15,000
Other (expense) income, net	(121)	6	(156)	
Total non-operating expense, net	(11,170)	(7,966)	(25,146)	(12,923)
(Loss) income before income taxes and equity in net losses of affiliate	(171,224)	13,065	(155,188)	42,141
Income tax benefit (expense)	27,233	(7,349)	21,976	(11,780)
Equity in net income of affiliate		284		1,687
Net (loss)/income	$(143,991)	$ 6,000	$(133,212)	$ 32,048

Basic and diluted earnings (loss) per common share:

Basic earnings (loss) per common share (See Note 8)	$ (3.56)	$ 0.14	$ (3.29)	$ 0.74
Diluted earnings (loss) per common share (See Note 8)	$ (3.56)	$ 0.14	$ (3.29)	$ 0.74
Weighted average basic common shares outstanding (See Note 8)	40,406	41,910	40,432	42,675
Weighted average diluted common shares outstanding (See Note 8)	40,406	41,910	40,432	42,690

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

CUMULUS MEDIA INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net (loss) income	$(133,212)	$ 32,048
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	8,365	9,386
Amortization of debt issuance costs/discount	775	314
Amortization of derivative gain	(828)	(2,979)
Provision for doubtful accounts	1,856	2,525
Loss on sale of assets or stations	(29)	(12)
Gain on exchange of assets or stations	(7,204)	
Fair value adjustment of derivative instruments	2,151	2,034
Impairment of goodwill and intangible assets	173,085	
Deferred income taxes	(22,351)	11,466
Non-cash stock compensation	2,053	3,882
Equity (gain) on investment in unconsolidated affiliate		(1,687)
Changes in assets and liabilities:		
Restricted cash	(789)	
Accounts receivable	2,837	(511)
Prepaid expenses and other current assets	(3,038)	989
Accounts payable and accrued expenses	(1,603)	(1,602)
Other assets	84	(460)
Other liabilities	(938)	(1,147)
Net cash provided by operating activities	21,214	54,246
Cash flows from investing activities:		
Proceeds from the sale of assets	91	
Purchases of intangible assets		(1,027)
Capital expenditures	(1,872)	(5,203)
Net cash used in investing activities	(1,781)	(6,230)
Cash flows from financing activities:		
Repayments of borrowings from bank credit facility	(49,956)	(11,640)
Tax withholding paid on behalf of employees	(95)	(2,401)
Proceeds from issuance of common stock		52
Payments made to creditors pursuant to debt amendment	(3,000)	
Payments related to the repurchase of common stock	(193)	(5,022)
Net cash used in financing activities	(53,244)	(19,011)
Decrease in cash and cash equivalents	(33,811)	29,005

Cash and cash equivalents at beginning of period	53,003	32,286
Cash and cash equivalents at end of period	$ 19,192	$ 61,291

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Cumulus Media Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Interim Financial Data and Basis of Presentation

Interim Financial Data

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of Cumulus Media Inc. (the Company) and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (the SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements and have been generally condensed or omitted pursuant to SEC rules and regulations. In the opinion of management, all adjustments necessary for a fair statement of results of the interim periods have been made and such adjustments were of a normal and recurring nature. The results of operations and cash flows for the nine months ended September 30, 2009 are not necessarily indicative of the results that can be expected for the entire fiscal year ending December 31, 2009.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, intangible assets, derivative financial instruments, income taxes, stock-based compensation and contingencies and litigation. The Company bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Liquidity Considerations

The current economic crisis has reduced demand for advertising in general, including advertising on the Company s radio stations. In consideration of current and projected market conditions, overall advertising is expected to continue to decline at least through the remainder of 2009. Therefore, in conjunction with the development of the 2009 business plan, management assessed the impact of recent market developments in a variety of areas, including the Company s forecasted advertising revenues and liquidity. In response to these conditions, management refined the 2009 business plan to incorporate a reduction in forecasted 2009 revenues and cost reductions implemented in the fourth quarter 2008 and during the first nine months of 2009 to mitigate the impact of the Company s anticipated decline in 2009 revenue.

During the third quarter of 2009, the Company reviewed the events and circumstances detailed in ASC 350-20 to determine if an interim test of impairment of goodwill might be necessary. In July 2009, we revised our revenue forecast downward for the last two quarters of 2009 due to the sustained decline in revenues attributable to the current economic conditions. As a result of these conditions, the Company determined it was appropriate and reasonable to conduct an interim impairment analysis. In conjunction with the interim impairment analysis the Company recorded an impairment charge of approximately $173.1 million to reduce the carrying value of certain broadcast licenses and goodwill to their respective fair market values.

On June 29, 2009, the Company entered into an amendment to the credit agreement governing its senior secured credit facility. The credit agreement, as amended, is referred to herein as the Credit Agreement. The Credit Agreement maintains the preexisting term loan facility of $750 million, which, as of September 30, 2009, had an outstanding balance of approximately $646 million, and reduces the preexisting revolving credit facility from $100 million to $20 million. Additional facilities are no longer permitted under the Credit Agreement. See Note 5 for further discussion of the Credit Agreement.

Management believes that the Company will continue to be in compliance with all of its debt covenants through at least September 30, 2010, based upon actions the Company has already taken, which include: (i) the amendment to the Credit Agreement, the purpose of which was to provide certain covenant relief through 2010 (see Note 5, Long Term

Debt), (ii) employee reductions coupled with a mandatory one-week furlough during the second quarter of 2009, (iii) a new sales initiative implemented during the first quarter of 2009, the goal of which is to increase advertising revenues by re-engineering the Company s sales techniques through enhanced training of its sales force, and (iv) continued scrutiny of all operating expenses. However, the Company will continue to monitor its revenues and cost structure closely and if revenues decline greater than the forecasted decline from 2008 or if the Company exceeds planned spending, the Company may take further actions as needed in an attempt to maintain compliance with its debt covenants under the Credit Agreement. The actions may include the implementation of additional operational efficiencies, renegotiation of major vendor contracts, deferral of capital expenditures, and sale of non-strategic assets.

Although the Company was able to obtain the amendment to the Credit Agreement that provided relief with regard to certain restrictive covenants, including the fixed charge coverage ratio and total leverage ratio, there can be no assurance that the Company will be able to obtain an additional waiver or amendment to, or refinancing of, the Credit Agreement should additional waivers, amendments or refinancings become necessary to remain in compliance with its covenants in the future. In the event the Company does not maintain compliance with the applicable covenants under the Credit Agreement, the lenders could declare an event of default, subject to applicable notice and cure provisions. Failure to comply with the financial covenants or other terms of the Credit Agreement and failure to negotiate relief from the Company s lenders could result in the acceleration of the maturity of all outstanding debt. Under these circumstances, the acceleration of the Company s debt could have a material adverse effect on its business.

If the Company were unable to repay its debts when due, the lenders under the credit facilities could proceed against the collateral granted to them to secure that indebtedness. The Company has pledged substantially all of its assets as collateral under the Credit Agreement. If the lenders accelerate the maturity of outstanding debt, the Company may be forced to liquidate certain assets to repay all or part of the senior secured credit facilities, and the Company cannot be assured that sufficient assets will remain after it has paid all of the its debt. The ability to liquidate assets is affected by the regulatory restrictions associated with radio stations, including Federal Communications Commissions (FCC) licensing, which may make the market for these assets less liquid and increase the chances that these assets will be liquidated at a significant loss.

Recent Accounting Pronouncements

ASC 105. In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* , (SFAS No. 168) *a replacement of FASB Statement No. 162.* SFAS No. 168 is the new source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. This statement was incorporated into ASC 105 *Generally Accepted Accounting Principles* under the new FASB codification which became effective on July 1, 2009. The new Codification supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Company adopted this statement during the third quarter of 2009. The Company has included the references to the Codification, as appropriate, in these consolidated financial statements. Adoption of this statement did not have an impact on the Company s consolidated results of operations, cash flows or financial condition.

ASC 805. FASB Statement No. 141(R) *Business Combinations* was issued in December 2007. This statement was incorporated into ASC 805 *Business Combinations*, under the new FASB codification. ASC 805 requires that upon initially obtaining control, an acquirer should recognize 100% of the fair values of acquired assets, including goodwill and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100% of its target. Additionally, contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration and transaction costs will be expensed as incurred. This statement also modifies the recognition for pre-acquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. This statement amends ASC 740-10, *Income Taxes* (ASC 740) to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. ASC 805 is effective for fiscal years beginning after December 15, 2008. The Company adopted this statement on January 1, 2009 and accounted for the acquisitions completed during the first two quarters of 2009 in accordance with the provisions of ASC 805.

ASC 805 Update. In February 2009, the FASB issued SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,* which allows an exception to the recognition and fair value measurement principles of ASC 805. This exception requires that acquired contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. This statement update was effective for the Company as of January 1, 2009 for all business combinations that close on or after January 1, 2009 and it did not have an impact on the Company s consolidated results of operations, cash flows or financial condition.

Table of Contents

ASC 810. In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51,* which is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS No. 160 was incorporated into ASC 810 *Consolidation* (ASC 810) and requires companies to present minority interest separately within the equity section of the balance sheet. The Company adopted this statement as of January 1, 2009 and it did not have an impact on the Company s consolidated results of operations, cash flows or financial condition.
ASC 815. In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. The Statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 was incorporated into ASC 815 *Derivatives and Hedging* (ASC 815). ASC 815 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This statement became effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted this statement on January 1, 2009; see Note 4, Derivative Financial Instruments. .
ASC 855. In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (SFAS No. 165). The statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but prior to the issuance of financial statements. This statement was incorporated into ASC 855 *Subsequent Events* (ASC 855). This statement was effective for interim or annual reporting periods after June 15, 2009. ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements as well as the circumstances under which the entity would recognize them and the related disclosures an entity should make. This statement became effective for the Company s financial statements as of June 30, 2009. We have evaluated our subsequent events through November 3, 2009, which is the date of the Company s quarterly report on Form 10-Q, of which these financial statements are a part.
SFAS No. 167. (not part of the codification yet). In June 2009, the FASB issued FASB Statement No. 167, *Amendments to FASB Interpretation No. 46 (R)* (SFAS No. 167), which amended the consolidation guidance for variable-interest entities. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. This Statement is effective for financial statements issued for fiscal years periods beginning after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will adopt SFAS No. 167 on January 1, 2010 and is still assessing the impact the pronouncement will have on the Company s financial statements.
ASC 275 and ASC 350. In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Lives of Intangible Assets,* which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. Under the new codification this FSP was incorporated into two different ASC s, ASC 275 *Risks and Uncertainties* (ACS 275) and ASC 350 *Intangibles Goodwill and Other* (ASC 350). This interpretation was effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. The Company adopted this FSP on January 1, 2009, and it did not have a material impact on the Company s consolidated results of operations, cash flows or financial condition, and did not require additional disclosures related to existing intangible assets.
ASC 860 and ASC 810. The FASB issued *FSP FAS 140-4 and FIN 46R-8* in December 2008 and was effective for the first reporting period ending after December 15, 2008. Under the new codification the FSP was organized into two separate sections ASC 860 *Transfers and Servicing* and ASC 810 *Consolidations*. These ASC updates require additional disclosures related to variable interest entities, which include significant judgments and assumptions, restrictions on assets, risks and the affects on financial position, financial performance and cash flows. The Company adopted these ASC updates as of January 1, 2009, and they did not have a material impact on the Company s consolidated results of operations, cash flows or financial condition, and did not require additional disclosures.

ASC 820. On February 12, 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delayed the effective date of SFAS No. 157 *Fair Value Measurements,* for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. Under the new codification the FSP was incorporated into ASC 820 *Fair Value Measurements and Disclosures* (ASC 820). The Company adopted this ASC update on January 1, 2009 and it did not have a material impact on the Company s consolidated results of operations, cash flows or financial condition, and did not require additional disclosures.

8

ASC 820. FSP 157-4, FSP FAS 115-2 and FAS 124-2, and FSP FAS 107-1 and APB 28-1. On April 2, 2009, the FASB issued three FSPs to address concerns about measuring the fair value of financial instruments when the markets become inactive and quoted prices may reflect distressed transactions, recording impairment charges on investments in debt instruments, and requiring the disclosure of fair value of certain financial instruments in interim financial statements. These FSP s were incorporated into ASC 820 under the new codification. The first ASC update Staff Position, FSP FAS 157-4, *Determining Whether a Market is Not Active and a Transaction is Not Distressed*, provides additional guidance to highlight and expand on the factors that should be considered in estimating fair value when there has been a significant decrease in market activity for a financial asset. This update became effective for the Company s financial statements as of June 30, 2009 and it did not have a material impact on the Company s consolidated results of operations, cash flows or financial condition and did not require additional disclosures.

The second ASC update Staff Position, FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and FSP 124-2)*, changes the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of an impairment charge to be recorded in earnings. The Company adopted this update during the second quarter of 2009 and it did not have a material impact on the Company s consolidated results of operations, cash flows or financial condition, and did not require additional disclosures**.**

The third ASC update, Staff Position, FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1)* increases the frequency of fair value disclosures from annual only to quarterly. All three updates are effective for interim periods ending after June 15, 2009, with the option to early adopt for interim periods ending after March 15, 2009. ASC update FSP FAS 107-1 and APB 28-1 became effective for the Company s financial statements as of June 30, 2009, see Note 6, Fair Value Measurements.

ASC 260. In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1).* Under the new FASB codification this FSP was incorporated into ASC 260 Earnings Per Share *(ASC 260*). ASC 260 clarifies that unvested share-based payment awards that entitle holders to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are considered participating securities and should be included in the computation of earnings per share (EPS) pursuant to the two-class method. The two-class method of computing EPS is an earning allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. ASC 260 requires retrospective application and is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. This statement was adopted by the Company on January 1, 2009. The unvested restricted shares of Class A Common Stock awarded by the Company pursuant to its equity incentive plans contain rights to receive nonforfeitable dividends, and thus are participating securities requiring the two-class method of computing EPS; see Note 8, Earnings per Share for the Company s disclosure of EPS.

ASU 2009-05. The FASB issued Accounting Standards Update (ASU) No. 2009-05 which provides additional guidance on how companies should measure liabilities at fair value and confirmed practices that have evolved when measuring fair value such as the use of quoted prices for a liability when traded as an asset. While reaffirming the existing definition of fair value, the ASU reintroduces the concept of entry value into the determination of fair value. Entry value is the amount an entity would receive to enter into an identical liability. Under the new guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. The effective date of this ASU is the first reporting period (including interim periods) after August 26, 2009. Early application is permitted for financial statements for earlier periods that have not yet been issued. The Company adopted this statement during the third quarter of 2009 and it did not have an impact on the Company s consolidated results of operations, cash flows or financial condition.

2. Stock Based Compensation

For the three and nine months ended September 30, 2009, the Company recognized approximately $0.9 million and $2.1 million, respectively, in non-cash stock-based compensation expense, respectively.

During the first quarter of 2009, the Company awarded Lewis W. Dickey, Jr., its Chairman, President and Chief Executive Officer, 160,000 restricted performance based shares and 160,000 restricted time vested shares. The fair value on the date of grant for both of these awards was $0.5 million. In addition, during the first quarter of 2009 the Company awarded 140,000 time vested restricted shares with a fair value on the date of grant of $0.2 million, or $1.71 per share to certain officers (other than Mr. L. Dickey) of the Company.

Table of Contents

During the second quarter of 2009, the Company issued 17,000 time vested restricted shares of Class A Common Stock to each of the non-employee directors of the Company and 6,000 shares of Class of Common Stock to one retiring director, from Treasury.

3. Acquisitions and Dispositions

Green Bay and Cincinnati Swap

On April 10, 2009, the Company completed an asset exchange agreement with Clear Channel Communications, Inc. (Clear Channel). As part of the asset exchange, the Company acquired two of Clear Channel s radio stations located in Cincinnati, Ohio in consideration for five of the Company s radio stations in Green Bay, Wisconsin. The exchange transaction provided the Company with entry into the Cincinnati market, which was ranked #28 at that time by Arbitron. Larger markets are generally desirable for national advertisers, and have large and diversified local business communities providing for a large base of potential advertising clients. The transaction was accounted for as a business combination in accordance with guidance for business combinations. The fair value of the assets acquired in the exchange was $17.6 million (refer to the table below for the purchase price allocation). The Company incurred approximately $0.2 million of acquisition costs related to this transaction and expensed them as incurred through earnings within corporate general and administrative expense. The results of operations for the Cincinnati stations acquired are included in the Unaudited Condensed Consolidated Statements of Operations (statements of operations) since the acquisition date. The results of the Cincinnati stations were not material. Prior to the asset exchange, the Company and Clear Channel did not have any preexisting relationship.

In conjunction with the exchange, Clear Channel and the Company entered into a local management agreement (LMA) whereby the Company will provide the programming, sell the advertising, and retain the operating profits for managing the five Green Bay radio stations. In consideration for these rights, the Company will pay Clear Channel a monthly fee of approximately $0.2 million over the term of the agreement. The term of the LMA is for five years, expiring December 31, 2013. In conjunction with the LMA, the Company included the net revenues and station operating expenses associated with operating the Green Bay stations in the Company s consolidated financial statements from the effective date of the LMA (April 10, 2009) through September 30, 2009. Additionally, Clear Channel negotiated a written put option that allows them to require the Company to repurchase the five Green Bay radio stations at any time during the two-month period commencing July 1, 2013 (or earlier if the LMA agreement is terminated prior to this date) for $17.6 million (the fair value of the radio stations as of April 10, 2009). The Company accounted for the put option as a derivative contract and accordingly, the fair value of the put was recorded as a liability at the acquisition date and offset against the gain associated with the asset exchange. Subsequent changes to the fair value of the derivative are recorded through earnings. See Note 4, Derivative Financial Instruments.

In conjunction with the transactions, the Company recorded a net gain of $7.2 million, which is included in gain on exchange of assets in the statement of operations. This amount represents a gain of approximately $9.6 million recorded on the Green Bay Stations sold, net of a loss of approximately $2.4 million representing the fair value of the put option at acquisition date.

The table below summarizes the purchase price allocation:

Allocation	Amount
Fixed Assets	$ 458
Broadcast Licenses	15,353
Goodwill	1,600
Other Intangibles	225
Total Purchase Price	$ 17,636
Less: Carrying value of Green Bay Stations	(7,999)
Gain on asset exchange	$ 9,637

Less: Fair value of Green Bay Option	April 10, 2009	(2,433)
Net gain		**$ 7,204**

The above estimated fair values of assets acquired and liabilities assumed are preliminary and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that this information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize the determination of fair value, if any, of lease agreements. Thus, the preliminary measurements of fair value reflected are subject to change. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than December 31, 2009.

WZBN-FM Swap

During the first quarter ended March 31, 2009, the Company completed a swap transaction pursuant to which it exchanged WZBN-FM, Camilla, Georgia, for W250BC, a translator licensed for use in Atlanta, Georgia, owned by Extreme Media Group. The fair value of the assets acquired in exchange for the assets disposed was accounted for in accordance with the guidance for business combinations. This transaction was not material to the results of the Company.

4. Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with guidance regarding derivatives and hedging activities. This guidance requires the Company to recognize all derivatives on the balance sheet at fair value. Changes in fair value are recorded in income for any contracts not classified as qualifying hedging instruments. For derivatives qualifying as cash flow hedge instruments, the effective portion of the change in fair value must be recorded through other comprehensive income, a component of stockholders equity.

May 2005 Swap

In May 2005, the Company entered into a forward-starting LIBOR-based interest rate swap arrangement (the May 2005 Swap) to manage fluctuations in cash flows resulting from interest rate risk attributable to changes in the benchmark interest rate of LIBOR. The May 2005 Swap became effective as of March 13, 2006, the end of the term of the Company s prior swap. The May 2005 Swap expired on March 13, 2009, in accordance with the terms of the original agreement.

The May 2005 Swap changed the variable-rate cash flow exposure on $400 million of the Company s long-term bank borrowings to fixed-rate cash flows. Under the May 2005 Swap, the Company received LIBOR-based variable interest rate payments and made fixed interest rate payments, thereby creating fixed-rate long-term debt. The May 2005 Swap was previously accounted for as a qualifying cash flow hedge of the future variable rate interest payments in accordance with guidance related to accounting for derivatives and hedges. Starting in June 2006, the May 2005 Swap no longer qualified as a cash-flow hedging instrument. Accordingly, the changes in its fair value have since been reflected in the statement of operations instead of accumulated other comprehensive income (AOCI). Interest for the three months ended September 30, 2009 and 2008 includes income of $0.0 million and $2.5 million, respectively, related to the change in fair value. Interest expense for the nine months ended September 30, 2009 and 2008 includes income of $3.0 million and charges of $0.6 million, respectively, related to the change in fair value.

The fair value of the May 2005 Swap was determined in accordance with the provisions for fair value measurements using observable market based inputs (a Level 2 measurement). The fair value represents an estimate of the net amount that the Company would pay if the agreement was transferred to another party or cancelled as of the date of the valuation. The balance sheets as of September 30, 2009 and December 31, 2008 include other long-term liabilities of $0.0 million and $3.0 million, respectively, to reflect the fair value of the May 2005 Swap.

May 2005 Option

In May 2005, the Company also entered into an interest rate option agreement (the May 2005 Option), which provides for Bank of America, N.A. to unilaterally extend the period of the May 2005 Swap for two additional years, from March 13, 2009 through March 13, 2011. This option was exercised on March 11, 2009 by Bank of America, N.A. This instrument was not highly effective in mitigating the risks in cash flows, and therefore it was deemed speculative and its changes in value were accounted for as a current element of interest expense. The balance sheets as of September 30, 2009 and December 31, 2008 reflect other long-term liabilities of $17.6 million and $15.5 million, respectively, to include the fair value of the May 2005 Option. The Company reported $0.03 million of interest income and $2.2 million of interest expense inclusive of the fair value adjustment, during the three-month and nine-month periods ending September 30, 2009 and $2.1 million and $1.5 million of interest expense, during the three month and nine month periods ended September 30, 2008, representing the change in fair value of the May 2005 option.

In the event of a default under the Credit Agreement, or a default under any derivative contract, the derivative counterparties would have the right, although not the obligation, to require immediate settlement of some or all open derivative contracts at their then-current fair value. The Company does not utilize financial instruments for trading or other speculative purposes.

The Company s financial instrument counterparties are high-quality investments or commercial banks with significant experience with such instruments. The Company manages exposure to counterparty credit risk by requiring specific minimum credit standards and diversification of counterparties. The Company has procedures to monitor the credit exposure amounts. The maximum credit exposure at September 30, 2009 was not significant to the Company.

Green Bay Option

On April 10, 2009, Clear Channel and the Company entered into an LMA whereby the Company is responsible for operating (i.e., programming, advertising, etc.) five Green Bay radio stations and must pay Clear Channel a monthly fee of approximately $0.2 million over a five year term (expiring December 31, 2013), in exchange for the Company retaining the operating profits for managing the radio stations. Clear Channel also has a put option (the Green Bay Option) that allows them to require the Company to repurchase the five Green Bay radio stations at any time during the two-month period commencing July 1, 2013 (or earlier if the LMA agreement is terminated before this date) for $17.6 million (the fair value of the radio stations as of April 10, 2009). Clear Channel is the nation s largest radio broadcaster and as of September 2009 Moody s gave its debt a CCC credit rating. The Company accounted for the Green Bay Option as a derivative contract. Accordingly, the fair value of the put was recorded as a long term liability offsetting the gain at the acquisition date with subsequent changes in the fair value recorded through earnings.

The fair value of the Green Bay Option was determined in accordance with the provisions related to fair value measurements using inputs that are supported by little or no market activity (a Level 3 measurement). The fair value represents an estimate of the net amount that the Company would pay if the option was transferred to another party as of the date of the valuation. The balance sheet as of September 30, 2009 includes other long-term liabilities of $5.4 million to reflect the fair value of the Green Bay Option. The fair value of the Green Bay Option at September 30, 2009 and the origination date, April 10, 2009, was $5.4 million and $2.4 million, respectively. Accordingly, the Company recorded $3.0 million of expense in realized loss on derivative instruments associated with marking to market the Green Bay Option to reflect the fair value of the option during the three and nine months ended September 30, 2009.

The location and fair value amounts of derivatives in the Unaudited Condensed Consolidated Balance Sheets are shown in the following table:

Information on the Location and Amounts of Derivatives Fair Values in the Unaudited Condensed Consolidated Balance Sheet (in thousands)

Liability Derivatives

	Balance Sheet Location	**September 30, 2009 Fair Value**
Derivative not designated as hedging instruments:		
Interest rate swap	Other long-term liabilities	$(17,642)
Green Bay Option:	Other long-term liabilities	(5,449)
	Total	**$(23,091)**

The location and effect of derivatives in the statements of operations are shown in the following table:

Table of Contents

Liability Derivatives (In thousands)

Derivative Instruments	Financial Statement Location	Amount of Income (Expense) Recognized in Income on Derivatives for the Three Months Ended September 30, 2009	Amount of Income (Expense) Recognized in Income on Derivatives for the Nine Months Ended September 30, 2009
Green Bay Option	Realized loss on derivative instrument	$ (3,016)	$ (3,016)
Interest rate contracts	Interest income/(expense)		3,043
	Interest income/(expense)	30	(2,178)
	Total	**$ (2,986)**	**$ (2,151)**

5. Long-Term Debt

The Company s long-term debt consisted of the following at September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Term loan	$ 646,044	$ 696,000
Less: Current portion of long-term debt	38,383	7,400
Debt-discount	3,599	
	$ 604,062	$ 688,600

Senior Secured Credit Facilities

2009 Amendment

On June 29, 2009, the Company entered into an amendment to the Credit Agreement, with Bank of America, N.A., as administrative agent, and the lenders party thereto.

The Credit Agreement maintains the preexisting term loan facility of $750 million, which had an outstanding balance of approximately $647.9 million immediately after closing the amendment, and reduces the preexisting revolving credit facility from $100 million to $20 million. Incremental facilities are no longer permitted as of June 30, 2009 under the Credit Agreement.

The Company s obligations under the Credit Agreement are collateralized by substantially all of its assets in which a security interest may lawfully be granted (including FCC licenses held by its subsidiaries), including, without limitation, intellectual property and all of the capital stock of the Company s direct and indirect subsidiaries, including Broadcast Software International, Inc., which prior to the amendment, was an excluded subsidiary. The Company s obligations under the Credit Agreement continue to be guaranteed by all of its subsidiaries.

The Credit Agreement contains terms and conditions customary for financing arrangements of this nature. The term loan facility will mature on June 11, 2014. The revolving credit facility will mature on June 7, 2012.

Borrowings under the term loan facility and revolving credit facility will bear interest, at the Company s option, at a rate equal to LIBOR plus 4.00% or the Alternate Base Rate (defined as the higher of the Bank of America, N.A. Prime Rate and the Federal Funds rate plus 0.50%) plus 3.00%. Once the Company reduces the term loan facility by

$25 million through mandatory prepayments of Excess Cash Flow (as defined in the Credit Agreement), as described below, the Company will bear interest, at the Company s option,

Table of Contents

at a rate equal to LIBOR plus 3.75% or the Alternate Base Rate plus 2.75%. Once the Company reduces the term loan facility by $50 million through mandatory prepayments of Excess Cash Flow, as described below, the Company will bear interest, at the Company s option, at a rate equal to LIBOR plus 3.25% or the Alternate Base Rate plus 2.25%. In connection with the closing of the Credit Agreement, the Company made a voluntary prepayment in the amount of $32.5 million. The Company also will be required to make quarterly mandatory prepayments of 100% of Excess Cash Flo