

## FCC Considerations

Citadel's radio operations are subject to significant regulation by the FCC under chapter 5 of title 47 of the United States Code (as amended, the "*Communications Act*") and FCC rules and regulations promulgated thereunder.<sup>1</sup> A radio station may not operate in the United States without the authorization of the FCC. Approval of the FCC is required for the issuance, renewal, transfer, assignment or modification of station operating licenses. In connection with the Debtors' emergence from chapter 11, FCC Approval must be obtained.

The following is important information concerning the FCC Approval process and the ownership requirements and restrictions that must be met in order for parties to hold Reorganized Citadel's New Common Stock. **THE FOLLOWING SUMMARY OF CERTAIN FCC RULES AND POLICIES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. ALL HOLDERS OF CLAIMS OR EQUITY INTERESTS ARE URGED TO CONSULT THEIR OWN ADVISORS AS TO FCC OWNERSHIP ISSUES AND OTHER CONSEQUENCES OF THE PLAN.**

### 1. Required FCC Consents

Both the Debtors' entry of the Debtors into chapter 11 and the emergence of the Reorganized Debtors from chapter 11 require consent of the FCC. Following Citadel's filing of its voluntary petition under chapter 11, the Debtors filed applications seeking the FCC's consent to the pro forma assignment of the Debtors' FCC licenses from the Debtors to the Debtors as "debtors in possession" under chapter 11. The FCC granted its consent to this assignment on December 30, 2009. For Reorganized Citadel to continue the operation of the Debtors' radio stations, the Debtors will be required to file applications with the FCC (the "*FCC Long Form Applications*") to obtain approval of the Transfer of Control. To expedite the emergence of the Debtors from chapter 11, in the event that FCC Approval of the FCC Long Form Application is delayed and will not be obtained expeditiously, the Plan contemplates that the Debtors may, in their discretion and subject to the consent of the Requisite Participating Lenders, emerge from chapter 11 upon assignment of the FCC Licenses from the Debtors to the Reorganized Debtors and the transfer of the New Common Stock to the FCC Trust subject to the continuing jurisdiction and oversight of the Bankruptcy Court pending the FCC's grant of the FCC Long Form Application. The FCC's consent also would be required for the FCC Trust to act as an interim holder of the New Common Stock, but because the assignment of the FCC Licenses to the FCC Trust would not constitute a substantial transfer of control of the Debtors, the Debtors could file a FCC Short Form Application seeking FCC consent to this pro forma ownership change (the "*FCC Short Form Application*"). The FCC Short Form Application can be approved by the FCC on a more expedited basis than the FCC Long Form Application and are not subject to formal petitions to deny.

In the event that the FCC Trust is established and becomes effective, the Holders of Senior Secured Claims and General Unsecured Claims who are able to complete the Ownership Certification (discussed below) would receive beneficial interests in the FCC Trust, as opposed to directly holding the New Common Stock (subject to the ownership rules and regulations set forth below). Upon FCC approval of the FCC Long Form Application, the FCC Trust would be liquidated and holders of beneficial interests that complete the Ownership Certification would receive their pro rata share of the New Common Stock. The Holders of Senior Secured Claims and General Unsecured Claims who are unable to complete the Ownership Certification would retain Special Warrants.

### 2. Information Required from Prospective Stockholders of Reorganized Citadel.

In processing applications for consent to the transfer of control of FCC broadcast licensees or assignment of FCC broadcast licenses, the FCC considers, among other things, whether the prospective licensee and those considered to be "parties" to the application possess the legal, character and other qualifications to hold an interest in a broadcast station. For the FCC to process and grant the FCC Short Form Application and the FCC Long Form

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<sup>1</sup> All capitalized terms used but not otherwise defined herein will have the meaning ascribed to them in the Plan.

Application, the Debtors will need to obtain and include information about Reorganized Citadel and about the “parties” to the application demonstrating that such parties are so qualified.

As described in the Equity Allocation Mechanism attached as **Exhibit A** to the Plan, Holders of Senior Secured Claims and General Unsecured Claims will be issued Special Warrants which can be exercised for shares of New Common Stock of Reorganized Citadel for nominal consideration, subject to certain conditions, including the provision of an Ownership Certification. Specifically, parties seeking to exercise Special Warrants shall be required to submit a certified response to a questionnaire providing information on the prospective stockholder to establish that issuance of the New Common Stock to that Holder would not result in a violation of law, impair the qualifications of the Reorganized Debtors to hold the FCC Licenses or impede the grant of any FCC Applications on behalf of the Reorganized Debtors. All prospective stockholders and prospective holders of beneficial interests in the FCC Trust, whether or not they would be “parties” to the FCC Applications (as described below), would need to provide information on the extent of their direct and indirect ownership or control by non-U.S. persons to establish that Reorganized Citadel would comply with limitations under the Communications Act relating to the ownership and control of broadcast licenses by non-U.S. persons. Prospective holders of New Common Stock and prospective holders of beneficial interests in the FCC Trust, as the case may be, with direct or indirect ownership or control by non-U.S. persons would not be permitted to exercise the Special Warrants for New Common Stock or hold such beneficial interests in the FCC Trust, if the ownership percentage of such prospective holders, when aggregated with the ownership percentage of all other prospective holders, as calculated in accordance with FCC rules and regulations, would result in Reorganized Citadel having a greater amount of foreign ownership than permitted by the Communications Act. In such situations, prospective holders of New Common Stock or beneficial interests in the FCC Trust would retain Special Warrants. The Special Warrants would be permitted to be sold or assigned, provided that the purchaser or assignee would also be subject to the ownership certification process described above.

### **3. Attributable Interests in Media Under the FCC’s Rules.**

A prospective stockholder in Reorganized Citadel would be considered a “party” to the FCC Long Form Application if the prospective stockholder would be deemed to hold an “attributable” interest in Reorganized Citadel under Section 73.3555 of the FCC’s rules, 47 C.F.R. § 73.3555. The FCC’s “multiple ownership” and “cross ownership” rules prohibit common ownership of “attributable interests” of certain combinations of broadcast and other media properties. “Attributable interests” generally include the following interests in a media company: general partnership interests, non-insulated limited liability company or limited partnership interests, a position as an officer or director (or the right to appoint officers or directors), or a 5% or greater direct or indirect interest in voting stock. The FCC treats all partnership interests as attributable, except for those limited partnership interests that are “insulated” by the terms of the limited partnership agreement from “material involvement” in the media-related activities of the partnership. The FCC applies the same attribution and insulation standards to limited liability companies. Attribution traces through chains of ownership. In general, a person or entity that has an attributable interest in another entity also will be deemed to hold each of that entity’s attributable media interests except for indirect stock interests that are attenuated below the attribution threshold in the ownership chain.

Combinations of direct and indirect equity and debt interests exceeding 33% of the total asset value (equity plus debt) of a media outlet also may be deemed attributable if the holder has another attributable media interest in the same market or provides more than 15% of a station’s total weekly broadcast programming hours in that market. Also, a person or entity that provides more than 15% of the total weekly programming hours for a radio station and also has an attributable interest in another radio station in the same market is deemed to hold an attributable interest in the programmed station.

As described in the Equity Allocation Mechanism, when the Transfer of Control is effected, no individual or entity (including any individual or entity under common management) shall be permitted to acquire more than 4.99% of Reorganized Citadel’s Class A Common Stock thereby precluding any individual or entity from having an attributable interest as a result of stock ownership.

#### **4. FCC Foreign Ownership Restrictions for Entities Controlling Broadcast Licenses**

Section 310(b) of the Communications Act restricts foreign ownership or control of any entity licensed to provide broadcast and certain other services. Among other prohibitions, foreign entities may not have direct or indirect ownership or voting rights of more than 25% in a corporation controlling the licensee of a radio broadcast station if the FCC finds that the public interest will be served by the refusal or revocation of such a license due to foreign ownership or voting rights. The FCC has interpreted this provision to mean that it must make an affirmative public interest finding before a broadcast license may be granted or transferred to a corporation which is controlled by another corporation more than 25% owned or controlled, directly or indirectly, by foreigners. With very few exceptions, the FCC historically has not made such an affirmative finding in the broadcast field. The FCC calculates the voting rights separately from equity ownership, and both thresholds must be met. Warrants and other future interests typically are not taken into account in determining foreign ownership compliance. In some specific circumstances, however, the FCC has treated non-stock interests in a corporation as the equivalent of equity ownership and has assessed foreign ownership based on contributions to capital. Foreign ownership limitations also apply to partnerships and limited liability companies. The FCC historically has treated partnerships with foreign partners as foreign controlled if there are any foreign general partners. The interests of any foreign limited partners that are not insulated (using FCC criteria) from material involvement in the partnership's media activities and business are considered in determining the equity ownership and voting rights held by foreigners. The interests of limited partners that are properly insulated only count toward the calculation of equity owned by foreigners.

Because direct and indirect ownership of Reorganized Citadel's shares by non-U.S. persons and/or entities will proportionally affect the level of deemed foreign ownership and control rights in Reorganized Citadel, prospective shareholders will be required to provide information to Citadel on their own foreign ownership and control. Citadel shall review such information to assess whether permitting such party to hold such interests could impair the qualifications of Reorganized Citadel to hold FCC broadcast licenses. Upon receipt of the Ownership Certifications, the New Common Stock will be distributed as set forth in the Equity Allocation Mechanism, attached to the Plan as Exhibit A.

#### **5. Media Ownership Restrictions**

The FCC generally applies its ownership limits to "attributable" media interests held by an individual, corporation, partnership, limited liability company or other association, as addressed above. The FCC's rules on media ownership, in turn, limit the number of media properties in which one entity or entities under common control can have an attributable ownership interest. Those rules that could give rise to a prohibited combination for Reorganized Citadel or for a prospective stockholder of Reorganized Citadel are described below.

##### ***(i) Local Radio Ownership***

The FCC's rules impose specific limits on the number of commercial radio stations in which an entity can have an attributable interest in a particular geographic area. 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.

For radio stations that are located in markets rated by Arbitron, the geographic market determinations used

by Arbitron are utilized by the FCC to determine the market in which stations are located. For radio stations located outside of an Arbitron Metro, the FCC uses a signal contour-based methodology to determine markets.

**(ii) Radio/Television Cross-Ownership Rule**

The FCC's radio/television cross-ownership rule permits the common attributable ownership or control of more than one full-power AM and/or FM radio station and up to two television stations in the same market. The total number of radio stations permitted to be under common attributable ownership is dependent on the number of independently owned media voices in the local market as follows:

- In markets with at least 20 independently owned media voices, a single entity may hold attributable interests in up to two television stations and six radio stations. Alternatively, such an entity is permitted to hold an attributable interest in one television station and seven radio stations in the same market.
- In a market that includes at least 10 independently owned media voices, a single entity may hold attributable interests in up to two television stations if permitted under FCC rules limiting local television ownership and up to four radio stations.
- Regardless of the number of independently owned media voices in a market, a single entity may hold an attributable interest in up to two television stations where the FCC's rules permit common ownership of the two television stations and one radio station in any market.

**(iii) Newspaper/Broadcast Cross-Ownership Rule**

The newspaper broadcast cross-ownership rule currently in effect prohibits the cross ownership of daily newspapers and broadcast stations serving the same market, absent a waiver from the FCC. In 2007, the FCC adopted an order that modified this rule to presumptively allow the ownership of attributable interests in a broadcast station and an English-language daily newspaper of general circulation that is published in the market served by the broadcast station only in the 20 largest markets if certain conditions are met. The modified newspaper/broadcast cross-ownership rule has been appealed to a federal appellate court and the effectiveness of the new rule has been stayed. The appeal remains pending.