

CITADEL BROADCASTING CORP

Form 10-Q

May 10, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

Commission file number: 001-31740

CITADEL BROADCASTING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

City Center West, Suite 400
7201 West Lake Mead Blvd.
Las Vegas, Nevada 89128

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

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(Address of principal executive offices and zip code)

(702) 804-5200

(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 No

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

As of April 28, 2006, net of shares held in treasury, there were 114,230,126 shares of common stock, \$.01 par value per share, outstanding.

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Citadel Broadcasting Corporation

Form 10-Q

March 31, 2006

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Certain matters in this Form 10-Q, including, without limitation, certain matters discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Quantitative and Qualitative Disclosures about Market Risk, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are typically identified by the words believes, expects, anticipates, and similar expressions. In addition, any statements that refer to expectations or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and that matters referred to in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of Citadel Broadcasting Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the impact of current or pending legislation and regulation, antitrust considerations and other risks and uncertainties, including, but not limited to: changes in economic conditions in the U.S.; fluctuations in interest rates; changes in market conditions that could impair Citadel's intangible assets; changes in industry conditions; changes in operating performance; changes in the Company's dividend policy or stock repurchase programs; shifts in population and other demographics; changes in the level of competition for advertising dollars, technological changes and innovations; changes in governmental regulations and policies and actions of regulatory bodies; changes in tax rates; changes in capital expenditure requirements; the risk that the proposed business combination with ABC Radio may be delayed or not close; as well as those matters discussed under the captions Forward-Looking Statements and Risk Factors in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2005. Citadel Broadcasting Corporation undertakes no obligation to publicly update or revise these forward-looking statements because of new information, future events or otherwise.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (unaudited)****CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Condensed Balance Sheets**

(in thousands, except share and per share data)

(unaudited)

| | March 31, 2006 | December 31, 2005 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,716 | \$ 4,220 |
| Accounts receivable, net | 67,899 | 75,037 |
| Prepaid expenses and other current assets (including deferred income tax assets of \$25,336 as of March 31, 2006 and December 31, 2005) | 28,825 | 27,511 |
| Total current assets | 98,440 | 106,768 |
| Property and equipment, net | 84,299 | 86,076 |
| FCC licenses | 1,471,940 | 1,464,191 |
| Goodwill | 658,833 | 658,833 |
| Other assets, net | 17,942 | 17,457 |
| Total assets | \$ 2,331,454 | \$ 2,333,325 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable, accrued liabilities and other liabilities | \$ 61,288 | \$ 84,773 |
| Long term liabilities: | | |
| Senior debt | 385,000 | 322,500 |
| Convertible subordinated notes | 330,000 | 330,000 |
| Other long-term liabilities, less current portion | 21,294 | 22,296 |
| Deferred income tax liabilities | 305,340 | 299,057 |
| Total liabilities | 1,102,922 | 1,058,626 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value authorized, 200,000,000 shares at March 31, 2006 and December 31, 2005; no shares issued or outstanding at March 31, 2006 and December 31, 2005 | | |
| Common stock, \$.01 par value authorized, 500,000,000 shares at March 31, 2006 and December 31, 2005; issued, 137,902,212 and 133,752,212 shares at March 31, 2006 and December 31, 2005; outstanding, 114,914,226 and 114,026,626 shares at March 31, 2006 and December 31, 2005, respectively | 1,379 | 1,338 |
| Treasury stock, at cost, 22,987,986 and 19,725,586 shares at March 31, 2006 and December 31, 2005, respectively | (306,090) | (266,162) |
| Additional paid-in capital | 1,611,758 | 1,641,370 |
| Deferred compensation | | (13,807) |
| Accumulated deficit | (78,515) | (88,040) |

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| | | |
|--|--------------|--------------|
| Total shareholders' equity | 1,228,532 | 1,274,699 |
| Total liabilities and shareholders' equity | \$ 2,331,454 | \$ 2,333,325 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements of Operations**

(in thousands, except per share amounts)

(unaudited)

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| Net broadcasting revenue | \$ 93,999 | \$ 92,035 |
| Operating Expenses: | | |
| Cost of revenues, exclusive of depreciation and amortization shown separately below | 28,519 | 27,671 |
| Selling, general and administrative | 30,061 | 28,792 |
| Corporate general and administrative | 6,075 | 3,836 |
| Local marketing agreement fees | 313 | 466 |
| Depreciation and amortization | 5,533 | 5,672 |
| Other, net | 10 | (494) |
| Operating expenses | 70,511 | 65,943 |
| Operating income | 23,488 | 26,092 |
| Interest expense, net, including amortization of debt issuance costs of \$458 and \$460, respectively | 6,857 | 4,518 |
| Income before income taxes | 16,631 | 21,574 |
| Income tax expense | 7,106 | 9,689 |
| Net income | \$ 9,525 | \$ 11,885 |
| Net income per share - basic | \$ 0.09 | \$ 0.10 |
| Net income per share - diluted | \$ 0.08 | \$ 0.09 |
| Dividends declared per share | \$ 0.18 | \$ |
| Weighted average common shares outstanding: | | |
| Basic | 111,595 | 123,205 |
| Diluted | 127,362 | 139,157 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flows****(in thousands)****(unaudited)**

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 9,525 | \$ 11,885 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,533 | 5,672 |
| Amortization of debt issuance costs | 458 | 460 |
| Loss (gain) on sale of assets | 8 | (499) |
| Deferred income taxes | 6,283 | 8,933 |
| Non-cash stock-based compensation expense | 4,195 | 601 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 7,099 | 8,962 |
| Prepaid expenses and other current assets | (1,340) | (1,279) |
| Accounts payable, accrued liabilities and other obligations | (5,170) | (7,617) |
| Net cash provided by operating activities | 26,591 | 27,118 |
| Cash flows from investing activities: | | |
| Capital expenditures | (2,162) | (1,510) |
| Cash paid to acquire stations | (9,012) | (14,672) |
| Proceeds from sale of assets | 1 | 7,949 |
| Other assets, net | (1,222) | 290 |
| Net cash used in investing activities | (12,395) | (7,943) |
| Cash flows from financing activities: | | |
| Proceeds from senior debt | 75,000 | 27,500 |
| Principal payments on senior debt | (12,500) | (11,000) |
| Principal payments on other long-term obligations | (107) | (80) |
| Repayment of shareholder notes | 29 | |
| Purchase of shares held in treasury | (58,219) | (33,668) |
| Dividends paid to holders of common stock | (20,903) | |
| Net cash used in financing activities | (16,700) | (17,248) |
| Net (decrease) increase in cash and cash equivalents | (2,504) | 1,927 |
| Cash and cash equivalents, beginning of period | 4,220 | 948 |
| Cash and cash equivalents, end of period | \$ 1,716 | \$ 2,875 |

See accompanying notes to consolidated condensed financial statements.

Table of Contents**CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flows (Continued)****(in thousands)****(unaudited)***Supplemental schedule of investing activities*

The Company completed various radio station acquisitions during the three months ended March 31, 2005. In connection with these acquisitions, certain liabilities were assumed.

| | Three Months Ended March 31, 2005 |
|-------------------------------|--|
| Fair value of assets acquired | \$ 15,232 |
| Cash paid to acquire stations | (14,672) |
| Liabilities assumed | \$ 560 |

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| <i>Supplemental schedule of cash flow information</i> | | |
| Cash Payments: | | |
| Interest | \$ 7,353 | \$ 5,296 |
| Income taxes | 219 | 679 |
| Barter Transactions: | | |
| Equipment purchases through barter | 23 | 106 |
| Barter Revenue - included in gross broadcasting revenue | 2,009 | 2,306 |
| Barter Expenses - included in cost of revenues | 1,940 | 2,264 |
| Other Non-Cash Transactions: | | |
| Accrual of treasury stock repurchases | 14,052 | |
| Dividends declared but not paid | 19,983 | |

See accompanying notes to consolidated condensed financial statements.

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CITADEL BROADCASTING CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(unaudited)

1. BASIS OF PRESENTATION

Description of the Company

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

On February 6, 2006, the Company and Alphabet Acquisition Corp., 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 its business with ABC Radio, which includes 22 radio stations and the ABC Radio Network. The Merger and the issuance of shares of common stock of the Company in the Merger have been approved by written consent 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 expected to be 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. This amount represents the proceeds of debt to be incurred by ABC Radio prior to the spin-off or split-off from TWDC, which debt is expected to be refinanced by the Company at or following the closing. 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.

Pursuant to the ABC Radio Merger Agreement, the Company is also expected to declare a special distribution 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 base amount of the distribution is expected to be approximately \$2.46 per share (based on shares currently outstanding), subject to an upward adjustment (not to exceed \$250 million in the aggregate) in the event that the market price of the Company's common stock over a measurement period ending prior to the closing exceeds \$12.68.

The Company has received a commitment from various lenders, which commitment is subject to customary conditions, to provide debt financing to the Company in connection with the Company's payment of the special distribution, the refinancing of ABC Radio's debt and the completion of the Merger.

Consummation of the Merger is subject to customary closing conditions, including the absence of certain legal impediments to the consummation of the Merger, the effectiveness of certain filings with the SEC, the receipt of consent to, or rulings on, the transactions from the Federal Communications Commission (FCC) and the Internal Revenue Service and the receipt of certain legal 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 Radio Merger Agreement contains certain termination rights and provides that, upon the termination of the ABC Radio 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.

In connection with the ABC Radio Merger Agreement, Alphabet Acquisition Corp. was incorporated in Delaware on January 24, 2006 and is a wholly-owned subsidiary of Citadel Broadcasting Corporation.

Description of the Business

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Citadel Broadcasting Corporation was incorporated in Delaware and owns all of the issued and outstanding common stock of Citadel Broadcasting Company. Citadel Broadcasting Company owns and operates radio stations and holds 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

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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 unaudited consolidated condensed financial statements include Citadel Broadcasting Corporation, Citadel Broadcasting Company, and Alphabet Acquisition Corp. (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of results of the interim periods have been made, and such adjustments were of a normal and recurring nature. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and notes thereto included in Citadel Broadcasting Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

Reclassifications

Certain balance sheet and income statement reclassifications have been made to prior year amounts to conform them to the current year presentation. Other assets, net, and other intangible assets, net, have been combined for financial statement presentation, and non-cash stock compensation expense has been reclassified.

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. These estimates and assumptions relate in particular to the evaluation of intangible assets for potential impairment, including changes in market conditions which could affect the estimated fair values, the analysis of the measurement of deferred tax assets, and the determination of the allowance for doubtful accounts. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts 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 condensed balance sheets consisted of the following:

| | March 31, 2006 | December 31, 2005 |
|---------------------------------|-------------------|----------------------|
| | (in thousands) | |
| Trade receivables | \$ 70,642 | \$ 77,954 |
| Allowance for doubtful accounts | (2,743) | (2,917) |
| Accounts receivable, net | \$ 67,899 | \$ 75,037 |

Recent Accounting Pronouncements

Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, using the modified prospective approach. See Note 2 for further detail regarding the adoption of this standard.

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140*. SFAS No. 155 allows financial instruments that contain an embedded

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derivative and that otherwise would require bifurcation to be accounted for as a whole on a fair value basis, at the holders' election. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect that the adoption of SFAS No. 155 will have a material impact on its consolidated financial condition or results of operations.

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In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an Amendment of FASB Statement No. 140*. SFAS No. 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement is effective for all transactions in fiscal years beginning after September 15, 2006. The Company does not expect that the adoption of SFAS No. 156 will have a material impact on its consolidated financial condition or results of operations.

2. STOCK-BASED COMPENSATION***Adoption of SFAS No. 123R***

Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, using the modified prospective approach. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values measured at the grant date, or the date of later modification, over the requisite service period. In addition, under the modified prospective approach, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in pro forma footnote disclosures) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period. Therefore, the amount of compensation costs to be recognized over the requisite service period on a prospective basis after January 1, 2006 will include: (i) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006 based on their fair values measured at the grant date, (ii) compensation costs of all share-based payments granted subsequent to January 1, 2006 based on their respective grant date fair value, and (iii) the incremental fair value of awards modified subsequent to January 1, 2006 measured as of the date of such modification.

SFAS No. 123R requires companies when recording compensation cost for equity awards to estimate at the date of grant the number of equity awards granted that are expected to be forfeited and to subsequently adjust the estimated forfeitures to reflect actual forfeitures.

For tax purposes, the Company is expected to be entitled to a tax deduction, subject to certain limitations, based on the fair value of the underlying equity award when the restrictions lapse or stock options are exercised. SFAS No. 123R requires compensation cost to be recognized in the financial statements based on the fair value measured at the grant date, or the date of later modification, over the requisite service period. The cumulative compensation cost recognized for equity awards pursuant to SFAS No. 123R and amounts that ultimately will be deductible for tax purposes are temporary differences as prescribed by SFAS No. 109, *Accounting for Income Taxes*. Through March 31, 2006, the Company has recognized pre-tax compensation cost of \$45.3 million and \$17.9 million in related deferred tax assets for such awards on a cumulative basis. The tax effect of compensation deductions for tax purposes in excess of compensation cost recognized in the financial statements, if any, will be recorded as an increase in shareholders' additional paid-in capital when realized. A deferred tax asset recorded for compensation cost recognized in the financial statements that exceeds the amount that is ultimately realized on the tax return, if any, will be charged to income tax expense when the restrictions lapse or stock options are exercised or expire unless the Company has an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R). The Company is required to assess whether there is an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R) when the restrictions lapse or stock options are exercised or expire. As of March 31, 2006, the underlying fair value of equity awards since the date of grant have declined in value and, based on a preliminary analysis, the Company currently does not have an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R). Accordingly, absent a subsequent recovery of the underlying fair value of the equity awards, when the restrictions lapse or the stock options are exercised or expire, the Company may be required to immediately recognize a non-cash write down of the deferred tax asset for the tax effect of the compensation cost previously recognized in the financial statements to the amount that is realized.

SFAS No. 123R also amends FASB Statement No. 95, *Statement of Cash Flows*, to require the Company to change the classification in the consolidated condensed statements of cash flows of any tax benefits realized upon the exercise of stock options or issuance of nonvested share unit awards in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts are required to be reported as a financing cash inflow rather than as a reduction of income taxes paid in operating cash flows in the consolidated condensed statements of cash flows.

The incremental pre-tax share-based compensation expense recognized pursuant to the adoption of SFAS No. 123R for the three months ended March 31, 2006 was \$3.6 million. Total share-based compensation expense recognized under SFAS No. 123R, including the incremental pre-tax share-based compensation expense above, was \$4.2 million, or \$0.02 per basic and diluted share, with an associated tax benefit of \$1.7 million for the three months ended March 31, 2006.

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Prior to January 1, 2006, the Company accounted for stock-based compensation plans in accordance with the provisions of APB Opinion No. 25, as permitted by SFAS No. 123, and accordingly, did not recognize compensation expense for stock options with an exercise price equal to or greater than the market price of the underlying stock at the date of grant. Prior to the adoption of SFAS No. 123R, the Company recognized share-based payment compensation costs using the accelerated recognition method. Upon adoption, the Company recognizes the cost of previously granted share-based awards under the accelerated recognition method and recognizes the cost of new or modified share-based awards on a straight-line basis over the requisite service period.

Had the fair value-based method as prescribed by SFAS No. 123 been applied, additional pre-tax compensation expense of \$1.8 million would have been recognized for the three months ended March 31, 2005, and the effect on net income and net income per share would have been as follows:

| | 2005 | |
|--|-------------------------------|---------------|
| | (Amounts in thousands, | |
| | except per share | |
| | amounts) | |
| | (unaudited) | |
| Net income applicable to common shares, as reported | \$ | 11,885 |
| Add: Corporate non-cash stock compensation expense | | 601 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method | | (2,425) |
| Incremental tax impact | | 720 |
| Net income applicable to common shares, pro forma | \$ | 10,781 |
| Basic net income per common share: | | |
| As reported | \$ | 0.10 |
| Pro forma | \$ | 0.09 |
| Diluted net income per common share: | | |
| As reported | \$ | 0.09 |
| Pro forma | \$ | 0.08 |

The incremental tax impact shown in the table above represents the effect of the additional tax benefit that the Company would have recognized in the 2005 period had compensation expense related to its stock options been recognized utilizing the fair value method.

Long-Term Incentive Plans

In October 2002, the Company adopted the Citadel Broadcasting Corporation 2002 Long-Term Incentive Plan (the Plan) pursuant to which the Company's board of directors may grant equity-based awards to officers, employees, directors and independent contractors. In May 2005, the Company, with the approval of its stockholders, amended and restated the Plan to (1) increase the number of shares of common stock of the Company available for issuance under the plan to 10,000,000 shares, (2) limit the availability of certain types of awards so as to comply with Internal Revenue Code Section 409A, which provides new rules for the taxation of deferred compensation and (3) make certain technical changes to the plan to bring the plan into compliance with Section 409A.

Stock options are generally granted with an exercise price equal to the common stock's fair market value at the date of grant. The stock options granted generally vest ratably over a four-year period commencing one year after the date of grant and expire on the earlier of 10 years from the date of grant or 60 days subsequent to the termination of employment. The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for the three months ended March 31, 2005: risk-free interest rate of approximately 4%; dividend yield of zero; expected life of approximately six years; and volatility of approximately 29%. During the three months ended March 31, 2006, certain other options were cancelled due to employee terminations and the shares of common stock underlying those grants became available for future grants.

Effective September 20, 2005, the Company, pursuant to the Plan, granted to its chief executive officer 1,250,000 nonvested shares of common stock of the Company that initially vested in one-third installments annually, beginning on September 20, 2006. Deferred compensation of approximately \$16.7 million determined based on the market price of the underlying stock at the date of grant was recorded and was being

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recognized as compensation expense over the vesting period of the shares. The balance of deferred compensation related to the unearned portion of this award as of January 1, 2006, which was reflected as a contra equity account, was eliminated against additional paid-in capital pursuant to SFAS No. 123R. On March 16, 2006, subject to stockholder approval at the

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annual meeting of stockholders of the Company scheduled for May 24, 2006, the compensation committee of the Company's board of directors approved the modification of these 1,250,000 shares of nonvested stock to subject them to additional criteria based on the Company's attainment of certain revenue-related performance objectives and to extend the applicable vesting dates to January 1, 2007, October 1, 2007 and October 1, 2008. The remaining unrecognized compensation as of the date of modification of approximately \$11.7 million measured pursuant to SFAS No. 123R is being recognized on a straight-line basis over the longer of the requisite service period or performance period of the award, which is expected to be one to three years.

On March 16, 2006, the compensation committee also granted to the Company's chief executive officer and certain other executive officers, subject to receipt of the same stockholder approval, 1,131,994 and 150,000, respectively, nonvested performance-vesting shares, which are also subject to the Company's attainment of certain revenue-related performance objectives and continued employment, and vest in two equal annual installments beginning on March 16, 2007. The compensation committee, subject to receipt of the stockholder approvals described above, also approved the cancellation of options to purchase 400,000 shares of common stock of the Company granted to the Company's chief executive officer at an exercise price of \$16.94 under the Plan on March 26, 2004. The related incremental compensation cost of these awards determined based on the market price of the underlying stock at the date of grant is being recognized as expense on a straight-line basis over the longer of the requisite service period or performance period of the award, which is expected to be approximately two years. Total unrecognized, pre-tax compensation cost related to nonvested performance-vesting shares of the Company as of March 31, 2006 was approximately \$14.6 million.

Compensation cost has been recognized for share-based awards that vest upon satisfaction of service and performance criteria since, based on an analysis of historical performance and preliminary results for the first quarter of 2006, management of the Company believes that the required service will be rendered and the performance condition specified in the nonvested performance-vesting shares will be achieved.

The compensation committee also approved, subject to stockholder approval, the cancellation of the fully vested options to purchase 4,150,000 shares of common stock of the Company at an exercise price of \$3.50 per share granted to the Company's chief executive officer under the stock option agreement, dated April 23, 2002, as amended on June 4, 2002, and the replacement of them with 2,868,006 fully vested stock units with deferred distribution dates. The incremental pre-tax fair value of approximately \$0.2 million measured pursuant to SFAS No. 123R attributed to this exchange of awards was determined based on the market price of the underlying stock at the date of grant and was recognized as compensation cost immediately on the date of modification.

As of March 31, 2006, the total number of shares of common stock that remain authorized, reserved, and available for issuance under the Plan was 2,898,747, not including shares underlying outstanding grants. Total unrecognized, pre-tax compensation cost related to nonvested stock options of the Company as of March 31, 2006 was approximately \$5.7 million. This cost is expected to be recognized over a weighted average period of approximately two years.

The following table summarizes stock option activity for the Company, including options granted to the chief executive officer outside of the Plan:

| | Options (in thousands) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|--------------------------------|---------------------------|------------------------------------|---|--|
| Options of Common Stock | | | | |
| Outstanding at January 1, 2006 | 9,169 | \$ 10.43 | 7.3 | |
| Granted | | | | |
| Exercised | | | | |
| Forfeited | (261) | | | |
| Expired | (4,370) | | | |
| Outstanding at March 31, 2006 | 4,538 | 16.10 | 7.9 | \$ |
| Exercisable at March 31, 2006 | 1,738 | \$ 17.30 | 7.2 | \$ |

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Activity related to shares of nonvested stock and nonvested stock units is summarized as follows:

| | Number of Nonvested Share | |
|--|------------------------------|--|
| | Awards (in thousands) | Weighted-Average Grant Date Fair Value |
| Shares of Nonvested Common Stock Awards | | |
| Nonvested awards at January 1, 2006 | 1,250 | \$ 13.32 |
| Granted | 1,282 | 11.33 |
| Awards vested | | |
| Forfeited | | |
| Nonvested awards at March 31, 2006 | 2,532 | \$ 12.31 |
| Shares of Nonvested Common Stock Units | | |
| Nonvested awards at January 1, 2006 | | \$ |
| Granted | 2,868 | 11.33 |
| Awards vested | (2,868) | 11.33 |
| Forfeited | | |
| Nonvested awards at March 31, 2006 | | |

3. INTANGIBLE ASSETS AND GOODWILL*Indefinite-Lived Intangibles and Goodwill*

Intangible assets consist primarily of Federal Communications Commission (FCC) broadcast licenses and goodwill, but also include certain other intangible assets acquired in purchase business combinations. Upon the adoption of 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 income 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 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 updated its analysis of potential impairment in the New Orleans market in the first quarter of 2006 and has determined that no impairment of intangible assets had occurred during 2005 or as of March 31, 2006. 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 has filed claims for such damage and recorded as operating expenses during the year ended December 31, 2005 the amount of its anticipated deductible of \$0.3 million. 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 and in the first quarter of 2006. The Company maintains business interruption insurance and expects to be

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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.

The changes in the carrying amounts of FCC licenses and goodwill for the period from January 1, 2006 through March 31, 2006 are as follows:

| | FCC Licenses (in thousands) | Goodwill |
|--------------------------|--------------------------------|------------|
| Balance, January 1, 2006 | \$ 1,464,191 | \$ 658,833 |
| Station acquisitions | 7,749 | |
| Balance, March 31, 2006 | \$ 1,471,940 | \$ 658,833 |

Definite-Lived Intangibles

The amount of amortization expense for definite-lived intangible assets was \$0.4 million and \$0.6 million for the three months ended March 31, 2006 and 2005, respectively. As of March 31, 2006, other assets, net on the accompanying consolidated balance sheet includes \$4.9 million in unamortized definite-lived intangible assets. The Company estimates the following amount of amortization expense over the next five years related to definite-lived intangible assets: approximately \$1.0 million for 2006, and approximately \$0.2 million in each of the four following years. As acquisitions and dispositions occur in the future and as purchase price allocations are finalized, amortization expense may vary from these amounts.

4. ACQUISITIONS AND DISPOSITIONS**Completed Acquisitions**

During the three months ended March 31, 2006, the Company completed acquisitions of five radio stations for an aggregate cash purchase price of approximately \$9.0 million.

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

Below is a table that details the preliminary purchase price allocations for the acquisitions completed in the first three months of 2006. The purchase price allocations were based upon information available as of March 31, 2006. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ significantly from the amounts included in these financial statements. Adjustments to the purchase price allocation are expected to be finalized in future quarters and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

| Asset Description | Asset lives | Radio Station Acquisitions |
|--------------------------------|----------------|-------------------------------|
| Property and equipment, net | 3-10 years | \$ 1,050 |
| FCC licenses | non-amortizing | 7,749 |
| Other intangibles, net | 6 to 84 months | 209 |
| Other assets | | 4 |
| Total aggregate purchase price | | \$ 9,012 |

The following summarized unaudited pro forma results of operations for the three months ended March 31, 2006 and 2005 assume that all significant radio station acquisitions and dispositions 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 | |
|-------------------------------------|---------------------------|-------------|
| | Three months ended | |
| | March 31, | |
| | 2006 | 2005 |
| | (in thousands) | |
| | (unaudited) | |
| Net broadcasting revenue | \$ 93,999 | \$ 92,391 |
| Net income | 9,525 | 11,983 |
| Basic net income per common share | 0.09 | 0.10 |
| Diluted net income per common share | \$ 0.08 | \$ 0.09 |

Table of Contents**5. OTHER LONG-TERM LIABILITIES**

In the third quarter of 2004, the Company reached a settlement with its previous national representation firm and entered into a long-term agreement with a new representation firm. Under the terms of the settlement, the Company's new representation firm settled the Company's obligations under the settlement agreement with the previous representation firm and entered into a new long-term contract with the Company. The deferred amount related to this contract is included in other long-term liabilities in the accompanying consolidated condensed balance sheets and is being amortized over the life of the new contract, which expires on September 30, 2011.

6. SENIOR DEBT

Below is a table that sets forth the rates and the amounts borrowed under the Company's senior debt as of March 31, 2006 and December 31, 2005:

| Type of Borrowing | March 31, 2006 | | December 31, 2005 | |
|-------------------|------------------------------------|---------------|------------------------------------|---------------|
| | Amount of Borrowing (in thousands) | Interest Rate | Amount of Borrowing (in thousands) | Interest Rate |
| Revolving Loan | \$ 385,000 | 4.72 to 5.61% | \$ 322,500 | 2.76 to 5.02% |

The amount available under the Company's Senior Credit Facility at March 31, 2006 was \$215.0 million in the form of revolving credit commitments. This excludes approximately \$2.6 million in letters of credit outstanding as of March 31, 2006. The Company's ability to borrow under its Senior Credit Facility is limited by its ability to comply with several financial covenants as well as a requirement that it make various representations and warranties at the time of borrowing.

At the Company's 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 the Company's 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 the Company's leverage ratio.

The Company's operating subsidiary, Citadel Broadcasting Company, is the primary borrower under this Senior Credit Facility. The Company has guaranteed the performance of Citadel Broadcasting Company under its Senior Credit Facility. The Company has also pledged to its lenders all of the equity interests in and intercompany notes issued by Citadel Broadcasting Company.

The Company's Senior Credit Facility contains customary restrictive non-financial covenants, which, among other things, and with certain exceptions, limit its ability to incur additional indebtedness, liens and contingent 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 or loans, enter into derivative contracts, or change the nature of its business. The 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 March 31, 2006, the Company was in compliance with all covenants under its Senior Credit Facility.

7. SUBORDINATED DEBT AND CONVERTIBLE SUBORDINATED NOTES

On February 18, 2004, the Company sold 9,630,000 shares of common stock of the Company at \$19.00 per share and concurrently sold \$330.0 million principal amount of convertible subordinated notes, before underwriting discounts of approximately \$6.6 million. The Company used all of the net proceeds from these transactions to retire the \$500.0 million of 6% Subordinated Debentures it issued in June 2001 (6% Debentures). The convertible subordinated notes are due February of 2011 and bear interest at a rate of 1.875% per annum, payable February 15 and August 15 each year. Holders may convert these notes into common stock at an initial 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 rate was adjusted to 39.7456 shares of common stock per \$1,000 principal amount of notes, equal to a conversion price of \$25.16 per share of common

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stock of the Company, 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. As permitted under the indenture, no adjustment was made with respect to the dividend declared to shareholders of record on March 30, 2006 since, in lieu of such adjustment, holders of the convertible notes will be entitled to the dividend amount upon conversion. The Company may redeem the notes at any time prior to maturity if the closing price of common stock of the Company 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 holders. Under certain circumstances set forth in the indenture, holders may require the Company 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 convertible subordinated notes).

On February 21, 2006, the Company received a letter from an attorney claiming to represent holders of more than \$109 million of the principal amount of the Company's 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 Radio Merger Agreement. Specifically, the letter alleges that certain transactions and agreements contemplated by the ABC Radio Merger Agreement will or do constitute a fundamental change under the indenture. On April 24, 2006, the Company received a second letter from the same attorney which states that the Company failed to cure the alleged default during the more than 60 days that elapsed since the Company's receipt of the first letter. The second letter alleges that as a result, an event of default has occurred and is continuing under the indenture. The second letter also purports to declare the principal amount of the convertible subordinated notes, and the accrued and unpaid interest, due and payable immediately. The Company does not believe that any of the transactions or agreements contemplated by the ABC Radio Merger Agreement will or do constitute a fundamental change under the indenture or that any event of default has occurred. 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. The Company intends to vigorously defend itself against the claims in both letters.

8. SHAREHOLDERS EQUITY***Stock Repurchase Plan***

On February 18, 2004, the Company sold 9,630,000 shares, and certain shareholders sold 20,000,000 shares, of common stock of the Company at \$19.00 per share, before an underwriting discount of \$0.66 per share. The proceeds from the sale of the shares of common stock sold by the Company were utilized as partial repayment of the Company's 6% Debentures (see Note 7).

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 shares of its outstanding common stock. As of March 31, 2006, the Company had repurchased approximately 23.1 million shares of common stock for an aggregate amount of approximately \$307.0 million under these repurchase programs. As of March 31, 2006, net of shares held in treasury, the Company had 114,914,226 shares of common stock outstanding. During the period from April 1, 2006 through April 30, 2006, the Company repurchased approximately 0.7 million shares of its common stock for an aggregate amount of approximately \$6.8 million under its repurchase programs.

Dividends

Beginning in the fourth quarter of 2005, the Company's board of directors declared a quarterly dividend to holders of common stock of the Company. The second quarterly dividend of \$0.18 per share of common stock of the Company was declared to shareholders of record as of March 30, 2006. The following table sets forth the cash dividends declared and paid in 2006 and 2005.

| | Dividend | |
|--------------------|---------------------|------------------|
| Record Date | Payment Date | Per Share |
| November 30, 2005 | January 18, 2006 | \$ 0.18 |
| March 30, 2006 | April 18, 2006 | 0.18 |

Dividends paid during the quarter ended March 31, 2006 totaled \$20.9 million.

9. INCOME TAXES

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The effective tax rate of approximately 43% for the three months ended March 31, 2006 differs from the federal tax rate of 35% primarily due to state taxes and non-deductible expenses. The effective tax rate of approximately 45% for the three months ended

March 31, 2005 differed from the federal tax rate of 35% primarily due to state taxes and the write-off of non-deductible goodwill due to radio station dispositions.

Table of Contents**10. NET INCOME PER SHARE**

Net income per share is calculated in accordance with SFAS No. 128, *Earnings Per Share*, which requires presentation of basic and diluted net income per share. Basic net income per share excludes dilution, and for the three months ended March 31, 2006 and 2005 is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. During the three months ended March 31, 2006 and 2005, 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 nonvested 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.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three months ended March 31, 2006 and 2005:

| | For the Three Months Ended | |
|--|----------------------------|------------------|
| | March 31, 2006 | 2005 |
| <i>(In thousands, except per share data)</i> | | |
| NUMERATOR: | | |
| Income available to common shareholders | \$ 9,525 | \$ 11,885 |
| Effect of dilutive securities: | | |
| Convertible subordinated notes | 936 | 936 |
| Numerator for net income per common share - diluted | \$ 10,461 | \$ 12,821 |
| DENOMINATOR: | | |
| Weighted average common shares | 111,595 | 123,205 |
| Effect of dilutive securities: | | |
| Options | 2,457 | 3,011 |
| Nonvested shares | 194 | |
| Convertible subordinated notes | 13,116 | 12,941 |
| Denominator for net income per common share - diluted | 127,362 | 139,157 |
| Net income per common share: | | |
| Net income - Basic | \$ 0.09 | \$ 0.10 |
| Net income - Diluted | \$ 0.08 | \$ 0.09 |

Options to purchase 4,537,509 and 3,535,625 shares of common stock of the Company for the three months ended March 31, 2006 and 2005, respectively, were not included in the computation of diluted earnings per share because their effect would have been antidilutive.

11. COMMITMENTS AND CONTINGENCIES

In connection with the acquisition of a radio station in Salt Lake City, UT, the Company 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. Prior to March 31, 2006, the seller was notified by the lender of a default under its other financing. A demand has been made to the primary obligor to pay the outstanding balance. The parties are in the process of seeking alternative financing.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, or other sources are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

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Litigation

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 not sued) for the purposes of pre-trial discovery and motion practice. Since the action was filed, plaintiffs have amended their complaint three times, though the claims against the Company remain substantively the same. On January 27, 2005, the Company filed an answer to the Henault 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). Finally, in February 2006, just before the statute of limitations expired, a substantially identical suit was filed on behalf of another concert patron (Long v. American Foam Corp., C.A. No. 06-047-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.

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, the Company 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. The Company has cooperated with this investigation and continues to do so. In connection with this investigation, the New York Attorney General's Office has entered into settlement agreements with certain 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, and in April 2006, the Company received a letter of inquiry and request for information from the FCC. The Company intends to cooperate with the FCC in this investigation and is in the process of gathering the information requested by the FCC. At this time, it is not possible to determine the outcome of this increased activity.

The Company is involved in certain other legal actions and claims that arose in the ordinary course of the Company's business. Management believes that such litigation and claims will be resolved without a material effect on the Company's financial position, results of operations, or cash flows.

12. SUBSEQUENT EVENT

In May 2006, the Company entered into an agreement to acquire one radio station for a purchase price of approximately \$8.5 million.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain matters in this Form 10-Q, including, without limitation, certain matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in Quantitative and Qualitative Disclosures about Market Risk, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those statements include statements regarding the intent, belief or current expectations of Citadel Broadcasting Corporation and its subsidiaries (collectively the Company), its directors or its officers with respect to, among other things, future events and financial trends affecting the Company.

Forward-looking statements are typically identified by the words believes, expects, anticipates, and similar expressions. In addition, any statements that refer to expectations or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and that matters referred to in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the impact of current or pending legislation and regulation, antitrust considerations and other risks and uncertainties, including, but not limited to: changes in economic conditions in the U.S.; fluctuations in interest rates; changes in market conditions that could impair Citadel's intangible assets; changes in industry conditions; changes in operating performance; changes in the Company's dividend policy or stock repurchase programs; shifts in population and other demographics; changes in the level of competition for advertising dollars, technological changes and innovations; changes in governmental regulations and policies and actions of regulatory bodies; changes in tax rates; changes in capital expenditure requirements; the risk that the proposed business combination with ABC Radio may be delayed or not close; as well as those matters discussed under the captions Forward-Looking Statements and Risk Factors in Citadel Broadcasting Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. The Company undertakes no obligation to publicly update or revise these forward-looking statements because of new information, future events or otherwise.

Overview

Citadel is the fifth largest radio broadcasting company in the United States based on net broadcasting revenue. As of April 28, 2006, we owned and operated 164 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. Radio stations serving the same geographic area (i.e., principally a city or combination of cities) are referred to as a market.

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. (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, we will combine our business with ABC Radio, which includes 22 radio stations and the ABC Radio Network. 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. This amount represents the proceeds of debt to be incurred by ABC Radio prior to the spin-off or split-off from TWDC, which debt is expected to be refinanced by Citadel at or following the closing. 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 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 1, Financial Statements, Note 1 for more information.)

Advertising Revenue

Our net broadcasting revenue is primarily derived from the sale of broadcasting time to local, regional and national advertisers. Net broadcasting revenue is gross revenue less agency commissions. Local revenue is comprised of advertising sales made within a station's local market or region either directly with the advertiser or through the advertiser's agency. National revenue represents sales made to advertisers/agencies who are purchasing advertising for multiple markets. These sales are typically facilitated by our national

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representation firm, which serves as our sales agent in these transactions. Our revenue is affected primarily by the advertising rates our radio stations charge as well as the overall demand for radio advertising time in a market. Advertising rates are based primarily on four factors:

a radio station's audience share in the demographic groups targeted by advertisers, as measured principally by quarterly reports issued by The Arbitron Ratings Company, or Arbitron;

the number of radio stations, as well as other forms of media, in the market competing for the same demographic groups;

the supply of and demand for radio advertising time; and

the size of the market.

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.

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. Intangible assets consist primarily of Federal Communications Commission (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) SFAS No. 142, *Goodwill and Other Intangible Assets*, 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 evaluates its FCC licenses by market for possible impairment annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. If the carrying amount of the FCC license is greater than their estimated fair value in a given market, the carrying amount of FCC license in that market is reduced to its estimated fair value. The Company's impairment testing for goodwill in each of its markets is also performed annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. This evaluation is determined based primarily on discounted expected cash flows to be generated from each market. If the carrying amount of the goodwill is greater than the estimated fair value in a given market, the carrying amount of goodwill in that market is reduced to its estimated fair value.

Based on intangible assets currently held by us and the preliminary allocation of the aggregate purchase price of acquisitions completed during the three months ended March 31, 2006, excluding non-cash impairment effects, if any, we expect the total amortization expense incurred in future periods 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 condensed 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.

Additionally, as opportunities arise, we may, on a selective basis, change or modify a station's format due to changes in listeners' tastes or changes in a competitor's format. This could have an immediate negative impact on a station's ratings, and there are no guarantees that the modification or change to a station's format will be beneficial at some future time. Our management is continually focused on these opportunities as well as the risks and uncertainties associated with any change to a station's format. We believe that the diversification of formats on our stations helps to insulate us from the effects of changes in the musical tastes of the public with respect to any particular format. We strive to develop strong listener loyalty as audience ratings in local markets are crucial to our stations' financial success.

Table of Contents**Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005***Net Broadcasting Revenue*

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|--------------------------|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Net revenues: | | | | |
| Local | \$ 81.6 | \$ 79.4 | \$ 2.2 | 2.8% |
| National | 12.4 | 12.6 | (0.2) | -1.6% |
| Net broadcasting revenue | \$ 94.0 | \$ 92.0 | \$ 2.0 | 2.2% |

The increase in net broadcasting revenue of approximately \$2.0 million, or 2.2%, was primarily due to higher revenues from certain of our existing stations, including stations in Boise, ID, Lafayette, LA and Tucson, AZ, partially offset by lower revenues in Colorado Springs, CO, Knoxville, TN, and Nashville, TN. Most of the increase from 2005 to 2006 was in local revenues, which increased by \$2.2 million, or 2.8%, while national revenue was down \$0.2 million.

Net revenues in the first quarter of 2006 were affected by damage sustained at our stations in the New Orleans market as a result of Hurricane Katrina in August 2005. Excluding the New Orleans market, consolidated net revenues increased approximately 3% during the 2006 first quarter compared to the 2005 first quarter. The Company has insurance coverage, including business interruption insurance, which is expected to partially offset near-term financial impacts related to Hurricane Katrina, and the Company is working aggressively to resolve the insurance recovery claim.

Adoption of SFAS No. 123R and non-cash stock-based compensation expense

Effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, using the modified prospective approach. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires the cost of all new grants of share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date, or the date of later modification, over the requisite service period. In addition, SFAS No. 123R requires unrecognized cost (based on the amounts previously disclosed in pro forma footnote disclosures) related to options vesting after the date of initial adoption to be recognized in the financial statements over the remaining requisite service period.

The estimated annual non-cash stock-based compensation expense recognized pursuant to SFAS No. 123R for equity awards granted as of March 31, 2006 is expected to be approximately \$16.1 million for the year ending December 31, 2006, most of which is expected to relate to corporate general and administrative expenses. The incremental pre-tax stock-based compensation expense recognized pursuant to SFAS No. 123R for the three months ended March 31, 2006 was \$3.6 million. Total share-based compensation expense recognized under SFAS No. 123R, including the incremental pre-tax share-based compensation expense above, was \$4.2 million, with an associated tax benefit of \$1.7 million for the three months ended March 31, 2006, or \$0.02 on a basic and diluted per share basis. Total unrecognized, pre-tax compensation cost related to nonvested stock options of the Company as of March 31, 2006 was approximately \$5.7 million. This cost is expected to be recognized over a weighted average period of approximately two years. Total unrecognized, pre-tax compensation cost related to nonvested performance-vesting shares of the Company as of March 31, 2006 was approximately \$26.1 million measured pursuant to SFAS No. 123R and is being recognized on a straight-line basis over the longer of the requisite service period or performance period of the award, which is expected to be approximately two to three years.

The total impact of the adoption of SFAS No. 123R and total non-cash stock-based compensation expense recognized for the three months ended March 31, 2006 and 2005 is as follows:

| | March 31, 2006 | March 31, 2005 | \$ Change |
|--|-----------------------|----------------|-----------|
| | (Amounts in millions) | | |
| Non-cash stock-based compensation expense: | | | |
| Cost of revenues | \$ 0.6 | \$ | \$ 0.6 |

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| | | | |
|--|--------|--------|--------|
| Selling, general and administrative | 0.7 | | 0.7 |
| Corporate general and administrative | 2.9 | 0.6 | 2.3 |
| Total non-cash stock-based compensation expense: | \$ 4.2 | \$ 0.6 | \$ 3.6 |

Table of Contents*Cost of Revenues*

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|--|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Cost of revenues (exclusive of depreciation and amortization shown separately below) | \$ 28.5 | \$ 27.7 | \$ 0.8 | 2.9% |

Cost of revenues for the three months ended March 31, 2006 were up \$0.8 million, or 2.9%, from the prior year quarter primarily due to approximately \$0.6 million of non-cash stock-based compensation expense recognized pursuant to SFAS No. 123R as discussed above. Cost of revenues related to radio stations we acquired in 2005 and 2006 and higher technical and programming expenses at our existing stations were 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

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|--|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Selling, general and administrative expenses | \$ 30.1 | \$ 28.8 | \$ 1.3 | 4.5% |

Selling, general and administrative expenses for the three months ended March 31, 2006 increased \$1.3 million, or 4.5%, from the three months ended March 31, 2005. The most significant increase was \$0.7 million of non-cash stock-based compensation expense recognized pursuant to SFAS No. 123R as discussed above. Additionally, increased sales costs at our existing stations were partially offset by decreased expenses in our New Orleans market due to Hurricane Katrina in August 2005.

Corporate General and Administrative

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|---|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Corporate general and administrative expenses | \$ 6.1 | \$ 3.8 | \$ 2.3 | 60.5% |

Corporate general and administrative expenses increased \$2.3 million, or 60.5%, from \$3.8 million in the first quarter of 2005 to \$6.1 million in the first quarter of 2006. The increase was primarily due to the recognition of \$2.3 million of additional non-cash stock-based compensation expense pursuant to SFAS No. 123R relating to grants of stock-based awards made to certain executives. As more fully discussed above, the amount of corporate general and administrative expense related to non-cash stock-based compensation expense is expected to continue to increase throughout 2006, based on equity awards granted as of March 31, 2006. The prior year non-cash stock-based 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 previous awards was fully expensed in the first quarter of 2005.

Depreciation and Amortization

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|-------------------------------------|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Depreciation and amortization: | | | | |
| Depreciation | \$ 5.1 | \$ 5.0 | \$ 0.1 | 2.0% |
| Amortization | 0.4 | 0.7 | (0.3) | -42.9% |
| Total depreciation and amortization | \$ 5.5 | \$ 5.7 | \$ (0.2) | -3.5% |

Depreciation and amortization expense for the first quarter of 2006 was consistent with prior year first quarter.

Operating Income

Operating income decreased by \$2.6 million, or 10%, from \$26.1 million for the three months ended March 31, 2005 to \$23.5 million for the three months ended March 31, 2006. The decrease was primarily due to an increase of approximately \$3.6 million in non-cash compensation expense recognized pursuant to Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*.

Table of Contents*Interest Expense, Net*

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|-----------------------|-----------------------|----------------|-----------|----------|
| | (Amounts in millions) | | | |
| Interest expense, net | \$ 6.9 | \$ 4.5 | \$ 2.4 | 53.3% |

The increase in net interest expense of approximately \$2.4 million, or 53.3%, was primarily due to increases in both average outstanding borrowings under the Senior Credit Facility and higher overall interest rates for the quarter ended March 31, 2006 as compared to the quarter ended March 31, 2005. The increase in outstanding borrowings was primarily the result of the repurchase of shares of outstanding common stock of the Company pursuant to its stock repurchase program since the prior year quarter. The Company's ongoing stock repurchase program may result in additional borrowings under its Senior Credit Facility, and this, in addition to higher overall interest rates, is expected to cause interest expense incurred during 2006 to continue to be higher than comparable periods in the prior year or earlier quarters in the current year.

Income Tax Expense

The effective tax rate of approximately 43% for the three months ended March 31, 2006 differs from the federal tax rate of 35% primarily due to state taxes and non-deductible expenses. Pursuant to the provisions of SFAS No. 123R, the Company is expected to be entitled to a tax deduction, subject to certain limitations, based on the fair value of the underlying equity award when the restrictions lapse or stock options are exercised. SFAS No. 123R requires compensation cost to be recognized in the financial statements based on the fair value measured at the grant date, or the date of later modification, over the requisite service period. The compensation cost recognized for equity awards pursuant to SFAS No. 123R and amounts that ultimately will be deductible for tax purposes are temporary differences as prescribed by SFAS No. 109, *Accounting for Income Taxes*. Through March 31, 2006, the Company has recognized pre-tax compensation cost of \$45.3 million and \$17.9 million in related deferred tax assets for such awards on a cumulative basis. The tax effect of compensation deductions for tax purposes in excess of compensation cost recognized in the financial statements, if any, will be recorded as an increase in shareholders' additional paid-in capital when realized. A deferred tax asset recorded for compensation cost recognized in the financial statements that exceeds the amount that is ultimately realized on the tax return, if any, will be charged to income tax expense when the restrictions lapse or stock options are exercised or expire unless the Company has an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R). The Company is required to assess whether there is an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R) when the restrictions lapse or stock options are exercised or expire. As of March 31, 2006, the underlying fair value of equity awards since the date of grant have declined in value and, based on a preliminary analysis, the Company currently does not have an available additional paid-in capital pool (as defined pursuant to SFAS No. 123R). Accordingly, absent a subsequent recovery of the underlying fair value of the equity awards, when the restrictions lapse or the stock options are exercised or expire, the Company may be required to immediately recognize a non-cash write down of the deferred tax asset for the tax effect of the compensation cost previously recognized in the financial statements to the amount that is realized.

Net Income

Net income decreased by approximately \$2.4 million to \$9.5 million for the three months ended March 31, 2006 compared to \$11.9 million for the three months ended March 31, 2005 as a result of the factors described above.

Net Income Per Share

Basic and diluted income per share decreased by approximately \$0.01, from \$0.10 and \$0.09 basic and diluted income per share, respectively, for the 2005 first quarter to \$0.09 and \$0.08 basic and diluted income per share, respectively, for the 2006 first quarter. During the three months ended March 31, 2006 and 2005, basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. During the same quarters, diluted net income per share is computed in the same manner as basic net income after assuming issuance of common stock for all potentially dilutive equivalent shares. The diluted shares outstanding for the quarters ended March 31, 2006 and 2005 include additional shares due to outstanding stock options and approximately 13.1 million shares related to our convertible notes, as the computation of diluted shares assumes the notes are converted into shares as of the beginning of the period.

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.

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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 all of the outstanding 6% Subordinated Debentures

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that we issued in June 2001. On May 13, 2004, the shelf registration covering resales of our convertible subordinated notes became effective with the Securities and Exchange Commission.

Operating Activities

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|---|-----------------------|-------------------|-----------|----------|
| | (Amounts in millions) | | | |
| Net cash provided by operating activities | \$ 26.6 | \$ 27.1 | \$ (0.5) | -1.8% |

Net cash provided by operating activities was \$26.6 million for the quarter ended March 31, 2006 compared to \$27.1 million for the quarter ended March 31, 2005. The decrease of approximately \$0.5 million was primarily due to the overall increases in cost of revenues and selling, general and administrative expense of \$0.8 million (excluding the increase of approximately \$1.3 million representing non-cash stock-based compensation expense) and in net interest expense of \$2.4 million, partially offset by the increase in net broadcasting revenues of \$2.0 million, as well as changes in operating assets and liabilities of \$0.5 million.

Investing Activities

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|---------------------------------------|-----------------------|-------------------|-----------|----------|
| | (Amounts in millions) | | | |
| Net cash used in investing activities | \$ (12.4) | \$ (7.9) | \$ (4.5) | 57.0% |

Net cash used in investing activities was \$12.4 million for the quarter ended March 31, 2006 compared to \$7.9 million for the quarter ended March 31, 2005. During the first three months of 2006, approximately \$11.2 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, compared to \$16.2 million for similar costs in the first three months of 2005, offset by proceeds from the sale of assets of \$7.9 million.

Financing Activities

| | March 31, 2006 | March 31, 2005 | \$ Change | % Change |
|---------------------------------------|-----------------------|-------------------|-----------|----------|
| | (Amounts in millions) | | | |
| Net cash used in financing activities | \$ (16.7) | \$ (17.2) | \$ 0.5 | -2.9% |

Net cash used in financing activities was \$16.7 million for the quarter ended March 31, 2006 compared to \$17.2 million for the quarter ended March 31, 2005.

During the three months ended March 31, 2006 and 2005, we increased our net borrowings under our senior debt by \$62.5 million and \$16.5 million, respectively, primarily to fund portions of the repurchases of our outstanding common stock and to complete the acquisition of radio stations.

On June 29, 2004 and November 3, 2004, our board of directors authorized us to repurchase up to \$100.0 million and \$300.0 million, respectively, of our outstanding common stock. During the first three months of 2006, we entered into agreements to repurchase approximately 3.3 million shares of our common stock for an aggregate amount of approximately \$39.9 million. Cash paid for repurchases settled in the current quarter was approximately \$58.2 million during the three months ended March 31, 2006. During the first three months of 2005, we repurchased approximately 2.4 shares of our common stock for an aggregate amount of approximately \$35.0 million, substantially all of which was paid in cash as of March 31, 2005. As of April 28, 2006, we had repurchased a total of approximately 23.7 million shares of our common stock for an aggregate amount of approximately \$313.8 million under these repurchase programs. Additionally, we paid dividends to holders of our common stock during the 2006 first quarter in the amount of approximately \$20.9 million.

Pursuant to the ABC Radio Merger Agreement, the Company is expected to declare a special distribution 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 base

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amount of the distribution is expected to be approximately \$2.46 per share (based on shares currently outstanding), subject to an upward adjustment (not to exceed \$250 million in the aggregate) in the event that the market price of the Company's common stock over a measurement period ending prior to the closing exceeds \$12.68.

The Company has received a commitment from various lenders, which commitment is subject to customary conditions, to provide debt financing to the Company in connection with the Company's payment of the special distribution, the refinancing of ABC Radio's debt and the completion of the Merger described in the Overview section above.

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During the three months ended March 31, 2006, we completed acquisitions of five radio stations for an aggregate cash purchase price of approximately \$9.0 million. In the 2005 first quarter, we completed the acquisition of two radio stations in the Providence, RI market for a cash purchase price of approximately \$14.7 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 and general corporate purposes, capital expenditures and acquisitions of additional radio stations as discussed above. Our capital expenditures totaled \$2.2 million during the three months ended March 31, 2006, as compared to \$1.5 million during the three months ended March 31, 2005. For the fiscal year ending December 31, 2006, we estimate that capital expenditures necessary for our facilities will be approximately \$10.0 million. 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.

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. As of March 31, 2006, our Senior Credit Facility consisted of the following:

| | Balance Outstanding | |
|---------------------------|----------------------------|--------------|
| | (as of March 31, | |
| | Commitment | 2006) |
| | (in thousands) | |
| Revolving credit facility | \$ 600,000 | \$ 385,000 |

Availability. The amount available under our Senior Credit Facility at March 31, 2006 was \$215.0 million in the form of revolving credit commitments. This excludes approximately \$2.6 million in letters of credit outstanding as of March 31, 2006. 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 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.

In the event the Company completes the Merger described in the Overview section above, the Company expects to refinance the Senior Credit Facility with the proceeds of the debt financing expected to be provided under the commitment described in the Liquidity and Capital Resources section above.

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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 March 31, 2006, we were in compliance with all covenants under our Senior Credit Facility.

Table of Contents**Subordinated Debt and Convertible Subordinated Notes**

On February 18, 2004, we sold 9,630,000 shares of our common stock at \$19.00 per share, before underwriting discount of \$0.66 per share. Additionally, we concurrently sold \$330.0 million principal amount of convertible subordinated notes, before underwriting discount of approximately \$6.6 million. We used all of the net proceeds from these transactions to retire the \$500.0 million of 6% Subordinated Debentures it issued in June 2001. The convertible subordinated notes are due 2011 and bear interest at a rate of 1.875% per annum, payable February 15 and August 15 each year. Holders may convert these notes into common stock at an initial 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 rate was adjusted to 39.7456 shares of common stock per \$1,000 principal amount of notes, equal to a conversion price of \$25.16 per share of common stock of the Company, 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. As permitted under the indenture, no adjustment was made with respect to the dividend declared to shareholders of record on March 30, 2006 since, in lieu of such adjustment, holders of our convertible notes will be entitled to the dividend amount upon conversion. 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. Under certain circumstances set forth in the indenture, 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 February 21, 2006, we received a letter from an attorney claiming to represent holders of more than \$109 million 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 Radio Merger Agreement. Specifically, the letter alleges that certain transactions and agreements contemplated by the ABC Radio Merger Agreement will or do constitute a fundamental change under the indenture. On April 24, 2006, we received a second letter from the same attorney claiming which states that we failed to cure the alleged default during the more than 60 days that elapsed since our receipt of the first letter. The second letter alleges that as a result, an event of default has occurred and is continuing under the indenture. The second letter also purports to declare the principal amount of the convertible subordinated notes, and the accrued and unpaid interest, due and payable immediately. We do not believe that any of the transactions or agreements contemplated by the ABC Radio Merger Agreement will or do constitute a fundamental change under the indenture or that any event of default has occurred. 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. We intend to vigorously defend ourselves against the claims in both letters.

Recent Accounting Pronouncements

Effective January 1, 2006, the Company adopted SFAS No. 123R, *Share-Based Payment*, using the modified prospective approach.

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - an Amendment of FASB Statements No. 133 and 140*. SFAS No. 155 allows financial instruments that contain an embedded derivative and that otherwise would require bifurcation to be accounted for as a whole on a fair value basis, at the holders' election. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect that the adoption of SFAS No. 155 will have a material impact on its consolidated financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an Amendment of FASB Statement No. 140*. SFAS No. 156 provides guidance on the accounting for servicing assets and liabilities when an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement is effective for all transactions in fiscal years beginning after September 15, 2006. The Company does not expect that the adoption of SFAS No. 156 will have a material impact on its consolidated financial condition or results of operations.

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. These estimates and assumptions relate in particular to the evaluation of intangible assets for potential impairment, including changes in market conditions which could affect the estimated fair values, the analysis of the measurement of deferred tax assets, and the determination of the allowance for doubtful accounts. We base our estimates on historical experience and on various

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other assumptions that are believed to be reasonable judgments. Actual results could differ from these estimates under different assumptions and conditions. In Management's Discussion and Analysis contained in

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our Annual Report on Form 10-K for the year ended December 31, 2005, we summarized the policies and estimates that we believe 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. There have been no material changes in such policies or estimates since we filed our Annual Report on Form 10-K for the year ended December 31, 2005.

Contractual and Commercial Commitments

In August 2004, we entered into a new Senior Credit Facility that provides for \$600.0 million in revolving loans through January 15, 2010. As of March 31, 2006, we had \$385.0 million outstanding under the revolving portion of our senior debt and \$330.0 million outstanding under our convertible notes.

| | Payments Due by Period (in millions) | | | | More than 5 |
|--|---|---------------------|--------|----------|--------------------|
| | Total | 1 to 3 | 3 to 5 | | |
| | | Less than 1 year | years | years | |
| Contractual Obligation | | | | | |
| Senior debt and convertible subordinated notes | \$ 715.0 | \$ | \$ | \$ 385.0 | \$ 330.0 |

There have been no other significant changes in our contractual and commercial commitments as of March 31, 2006 as compared to amounts disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

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. Prior to March 31, 2006, the seller was notified by the lender of a default under its other financing. A demand has been made to the primary obligor to pay the outstanding balance. The parties are in the process of seeking alternative financing.

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 3. 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 \$385.0 million of variable rate debt that was outstanding as of March 31, 2006. Based on this analysis, the impact on future earnings for the following twelve months would be approximately \$3.9 million of increased interest expense. This potential increase is based on certain simplifying assumptions, including a constant level of variable rate debt and a constant interest rate based on the variable rates in place as of March 31, 2006.

We believe our receivables do not represent a significant concentration of credit risk due to the wide variety of customers and markets in which we operate.

ITEM 4. CONTROLS AND PROCEDURES**Disclosure Controls and Procedures**

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We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify the Company's financial reports and to other members of senior management and the board of directors.

Based on their evaluation as of March 31, 2006, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Table of Contents**Changes in Internal Controls over Financial Reporting**

As of March 31, 2006, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are involved in certain legal actions and claims that arose in the ordinary course of our business. Management believes that such litigation and claims will be resolved without a material effect on our financial position, results of operations or cash flows.

See Item 1, Financial Statements, Note 11 for more information regarding specific legal actions and claims brought against us, which information is incorporated by reference into this section.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below summarizes stock repurchase information for the quarter ended March 31, 2006.

REGISTRANT PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Dollar |
|--|--|------------------------------------|---|--|
| | | | | Value of Shares that May Yet Be Purchased Under the Plans |
| January 1, 2006 through January 31, 2006 | 1,223,500 | \$ 13.44 | 1,223,500 | \$ 117,391,962 |
| February 1, 2006 through February 28, 2006 | 772,800 | 11.44 | 772,800 | 108,552,147 |
| March 1, 2006 through March 31, 2006 | 1,266,100 | 11.34 | 1,266,100 | 94,193,239 |
| Total | 3,262,400 | \$ 12.15 | 3,262,400 | |

Notes:

- 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On February 6, 2006, the Company received the written consent to the ABC Radio Merger Agreement, and the transactions contemplated thereby, including the Merger and the issuance of shares of common stock of the Company in connection with the Merger, from shareholders holding approximately 67% of the Company's common stock outstanding on that date. The ABC Radio Merger Agreement and transactions contemplated thereby, and the stockholders' written consent, are discussed in more detail in Item 1, Financial Statements, Note 1 and the Current Report on Form 8-K that the Company filed with the SEC on February 10, 2006, each of which is incorporated by reference herein.

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ITEM 6. EXHIBITS

Exhibits

The following exhibits are furnished or filed herewith:

Exhibit

| Number | Exhibit Description |
|---------------|--|
| 10.1 | The Registrant's Form of Performance Share Agreement under the Amended and Restated 2002 Long-Term Incentive Plan. |
| 10.2 | Agreement with respect to the 2002 Stock Option Agreement dated as of March 16, 2006, by and between the Registrant and Farid Suleman (incorporated by reference to Appendix C of the Registrant's Proxy Statement included in the Registrant's Definitive Schedule 14A filed with the SEC on April 17, 2006). |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITADEL BROADCASTING CORPORATION

Date: May 10, 2006

By: /s/ FARID SULEMAN
Farid Suleman
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2006

By: /s/ PATRICIA STRATFORD
Patricia Stratford
Acting Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit

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30

1,178

\$

1,161

Income taxes

10

--

Supplemental disclosure of non-cash investing activities:

Liability incurred for leases on revenue equipment

7,211

--

See notes to consolidated financial statements.

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USA TRUCK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments considered necessary for a fair presentation) have been included. Operating results for the three month period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the financial statements, and footnotes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

By agreement with our customers, and consistent with industry practice, we add a graduated fuel surcharge to the rates we charge our customers as diesel fuel prices increase above an agreed-upon baseline price per gallon. Base revenue in the consolidated statements of income represents revenue excluding this fuel surcharge revenue.

NOTE B – REVENUE RECOGNITION

Revenue generated by our Trucking operating segment is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, we recognize revenue pro rata based on relative transit time completed as a portion of the estimated total transit time in accordance with EITF 91-9, Method 5 issued by the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB"). Expenses are recognized as incurred.

Revenue generated by our Strategic Capacity Solutions operating segment (formerly referred to as our USA Logistics segment) is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor.

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Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

NOTE C – STOCK-BASED COMPENSATION

The current equity compensation plans that have been approved by our stockholders are our 2004 Equity Incentive Plan and our 2003 Restricted Stock Award Plan. There are also two plans under which options remain outstanding, but no new options may be granted, which are our Employee Stock Option Plan and our 1997 Nonqualified Stock Option Plan for Nonemployee Directors. We do not have any equity compensation plans under which equity awards are outstanding or may be granted that have not been approved by our stockholders.

The USA Truck, Inc. 2004 Equity Incentive Plan provides for the granting of incentive or nonqualified options or other equity-based awards covering up to 975,000 shares of Common Stock to directors, officers and other key employees. On the day of each annual meeting of stockholders of the Company for a period of nine years, which commenced with the Annual Meeting of Stockholders in 2005 and will end with the Annual Meeting of Stockholders in 2013, the maximum number of shares of Common Stock that is available for issuance under the Plan is automatically increased by that number of shares equal to the lesser of 25,000 shares or such lesser number of shares (which may be zero or any number less than 25,000) as determined by the Board. No options were granted under this Plan for less than the fair market value of the Common Stock as defined in the Plan at the date of the grant. Although the exercise period is determined when options are granted, no option may be exercised later than 10 years after it is granted. Options granted under the Plan generally vest ratably over five years. The option price under this Plan is the fair market value of our Common Stock at the date the options were granted, except that the exercise prices of options granted to our Chairman of the Board are equal to 110% of the fair market value of our Common Stock at the date those options were granted. The exercise prices of outstanding options granted under the 2004 Equity Incentive Plan range from \$11.47 to \$30.22 as of March 31, 2008. At March 31, 2008, 604,300 shares were available for granting future options or other equity awards under this Plan.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* (“SFAS 123(R)”), using the modified-prospective transition method. Under the modified-prospective transition method, the prior period’s financial statements are not restated to reflect stock-based compensation costs that would have been recognized

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in the financial statements with respect to outstanding options if we had applied SFAS 123(R) in those prior periods. Compensation cost recognized in the first three months of 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006. The compensation cost is based on the grant-date fair value calculated using a Black-Scholes-Merton option-pricing formula and is amortized over the vesting period in accordance with provisions of SFAS 123(R). For the three month period ended March 31, 2008, we recognized approximately \$72,000 and approximately \$6,000 in compensation expense related to incentive and nonqualified stock options granted under our plans, respectively.

The table below sets forth the assumptions used to value stock options granted during the years indicated. No options were granted during the quarter ended March 31, 2008.

| | 2008 | 2007 |
|-------------------------|------|---------------|
| Dividend yield | -- | 0% |
| Expected volatility | -- | 38.7% - 49.9% |
| Risk-free interest rate | -- | 4.2% - 5.0% |
| Expected life | -- | 3 to 9 years |

Expected volatility is a measure of the expected fluctuation in our share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for our share price to increase over the expected life of the option. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option’s contractual life. The risk-free interest rate is based

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on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options. In addition to the above, we also include a factor for anticipated forfeitures, which represents the number of shares under options expected to be forfeited over the expected life of the options.

At March 31, 2008, we had 280,050 outstanding stock options with a weighted average exercise price of \$15.84, and there were 97,150 vested options. The weighted average remaining contractual life of the exercisable options was approximately 0.6 year.

Information related to option activity for the three months ended March 31, 2008 is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (1) |
|-----------------------------------|----------------------|---------------------------------------|--|----------------------------------|
| Outstanding at January 1, 2008 | 298,450 | \$ 15.61 | | |
| Granted | -- | -- | | |
| Exercised | (6,700) | 9.88 | | \$ 23,652 |
| Cancelled/forfeited/expired | (11,700) | 13.28 | | |
| Outstanding at March 31, 2008 | 280,050 | 15.84 | 2.4 | 179,764 |
| Exercisable at March 31, 2008 (2) | 97,150 | \$ 14.02 | 0.6 | \$ 90,458 |

- (1) The intrinsic value of outstanding and exercisable stock options is determined based on the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our Common Stock, as determined by the closing price on March 31, 2008 (the last trading day of the quarter) was \$12.91. The intrinsic value of exercised stock options is determined based on the amount by which the closing market price on the date of exercise exceeds the exercise price of the option.
- (2) The fair value of options exercisable at March 31, 2008 was approximately \$0.4 million.

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Information related to the weighted average fair value of stock option activity for the three months ended March 31, 2008 is as follows:

| | Number of Shares Under Options | Weighted Average Fair Value |
|---------------------------------------|-----------------------------------|--------------------------------|
| Nonvested options – December 31, 2007 | 188,000 | \$ 6.90 |
| Granted | -- | -- |
| Forfeited | (2,100) | 6.17 |
| Vested | (3,000) | 6.46 |
| Nonvested options – March 31, 2008 | 182,900 | 6.91 |

The exercise price, number, weighted average remaining contractual life of options outstanding and the number of options exercisable as of March 31, 2008 is as follows:

| Exercise Price | Number of Options Outstanding | Weighted Average Remaining Contractual Life (in years) | Number of Options Exercisable |
|-------------------|----------------------------------|--|----------------------------------|
| \$ 11.47 | 115,200 | 1.5 | 55,300 |
| 12.10 | 9,600 | 0.8 | 9,600 |

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| | | | |
|-------|---------|-----|--------|
| 12.62 | 10,000 | 0.6 | 5,000 |
| 12.66 | 12,800 | 1.8 | 6,400 |
| 14.50 | 2,400 | 6.5 | -- |
| 15.83 | 5,000 | 6.4 | -- |
| 16.08 | 4,500 | 1.3 | 2,250 |
| 17.06 | 41,000 | 4.3 | -- |
| 22.54 | 69,800 | 3.1 | 15,600 |
| 22.93 | 6,000 | 1.6 | 1,500 |
| 30.22 | 3,750 | 2.8 | 1,500 |
| | 280,050 | 2.4 | 97,150 |

The 2003 Restricted Stock Award Plan allows us to issue up to 150,000 shares of Common Stock as awards of restricted stock to our officers, 100,000 shares of which have been awarded. Awards under the Plan vest over a period of no less than five years and vesting of awards is also subject to the achievement of performance goals set by the Board of Directors based on criteria set forth in the Plan. The fair value of the 100,000 shares of Common Stock subject to the awards previously granted will be amortized over the vesting period as compensation expense based on management's assessment as to whether achievement of the performance goals is probable. To the extent the performance goals are not achieved and there is not full vesting in the shares awarded, the compensation expense recognized to the extent of the non-vested forfeited shares will be reversed. The performance goal for 2007 was not met. As a result, no compensation expense was recognized for the 19,000 shares that were to have vested on March 1, 2008, based on 2007 performance. The shares remained outstanding until their scheduled vesting date of March 1, 2008, at which time their forfeiture became effective. For financial statement purposes, the forfeited shares were deemed to have been forfeited on December 31, 2007, the date on which it was determined that the achievement of the performance goal was not met. As a result, such shares have been recorded as treasury stock and are not reflected as nonvested shares in the table below as of December 31, 2007. In addition, no compensation expense was recognized for the 5,000 shares that were forfeited in November 2007 due to the termination of the employment of an officer of the Company which were to have vested on March 1, 2008. Those shares were also recorded as treasury stock upon forfeiture.

In accordance with SFAS 123(R), the compensation expense recognized is based on the market value of our Common Stock on the date the restricted stock award is granted and is not adjusted in subsequent periods. Based on the above, for the three months ended March 31, 2008 and 2007, the compensation expense related to our restricted stock awards was \$0.03 million and \$0.08 million, respectively.

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Information related to the 2003 Restricted Stock Award Plan for the three months ended March 31, 2008 is as follows:

| | Number of Shares | Weighted Average Fair Value |
|--------------------------------------|------------------|-----------------------------|
| Nonvested shares – December 31, 2007 | 22,000 | \$ 20.37 |
| Granted | -- | -- |
| Forfeited | -- | -- |
| Vested | -- | -- |
| Nonvested shares – March 31, 2008 | 22,000 | 20.37 |

As of March 31, 2008, we had approximately \$0.5 million and \$0.4 million in unrecognized compensation expense related to stock options and restricted stock, respectively, which is expected to be recognized over a weighted average period of approximately 2.4 years for stock options and 1.5 years for restricted stock.

NOTE D – REPURCHASE OF EQUITY SECURITIES

On January 24, 2007, we publicly announced that our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding Common Stock over a three-year period ending January 24, 2010. We may make Common Stock purchases under this program on the open market or in privately negotiated transactions at prices determined by our Chairman of the Board or President. During the three months ended March 31, 2008, we did not repurchase any shares of our Common Stock. Our current repurchase authorization has 1,165,901 shares remaining.

NOTE E – SEGMENT REPORTING

We classify our service offerings, which we previously referred to as “divisions,” into two operating segments, Trucking and Strategic Capacity Solutions. These two operating segments are aggregated into one segment for financial reporting purposes in accordance with FASB Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (“SFAS 131”). Trucking consists primarily of our General Freight and Dedicated Freight service offerings, which provide truckload freight services. The results of our regional freight operations, which we previously reported as a separate division, are now included as part of the results of our General Freight service offering. We previously referred to our freight brokerage operations as our “Strategic Capacity Solutions” division and the operating segment of which that division is a part as “USA Logistics”. We now use “Strategic Capacity Solutions” to refer to that operating segment, which now consists primarily of our Freight Brokerage and Third Party Logistics service offerings. In addition, during December 2007, we began offering rail intermodal services. The operating segment into which our rail intermodal service offerings are classified depends on whether or not Company equipment is used in providing the service. If Company equipment is used, those results are included in our Trucking operating segment. If Company equipment is not used, those results are included in our Strategic Capacity Solutions operating segment. For the quarter ended March 31, 2008, rail intermodal service offerings generated approximately 0.3% of total base revenue.

Our decision to aggregate our two operating segments into one reporting segment was based on factors such as the similar economic and operating characteristics of our service offerings and our centralized internal management structure. Except with respect to the relatively minor components of our operations that do not involve the use of our trucks, key operating statistics include, for example, revenue per mile and miles per tractor per week. While the operations of our Strategic Capacity Solutions service offerings do not involve the use of our equipment and drivers, we nevertheless provide truckload freight services to our customers through arrangements with third party carriers who are subject to the same general regulatory environment and cost sensitivities imposed upon our Trucking operations.

The service offerings we provide relate to the transportation of truckload quantities of freight for customers in a variety of industries. The services generate revenue, and to a great extent incur expenses, primarily on a per mile basis. The three service offerings within the Strategic Capacity Solutions operating segment are intended to provide services complementary to our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers of Strategic Capacity Solutions have also engaged us to provide services through one or more of our Trucking service offerings. Our Strategic Capacity Solutions operating segment represents a relatively minor part of our business, generating approximately 3.6% of our total base revenue for the three months ended March 31, 2008 and less than 4.0% of total base revenue in each of the last two fiscal years.

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NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company’s choice to use fair value. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”), discussed below. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement became effective for the Company on January 1, 2008 and did not have a material impact on the Company’s financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”) and expands disclosures about fair value measurements. This statement was published due to the different definitions of fair value that are among the many accounting pronouncements that require fair value measurements and the limited guidance for applying those definitions in GAAP. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement became effective for the Company on January 1, 2008 and did not have a material impact on the Company’s financial position, results of operations and cash flows.

NOTE G - ACCRUED EXPENSES

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Accrued expenses consisted of the following:

| | (in thousands) | |
|--|------------------|--------------|
| | March 31, | December 31, |
| | 2008 | 2007 |
| Salaries, wages, bonuses and employee benefits | \$ 4,860 | \$ 3,869 |
| Other (1) | 6,421 | 5,703 |
| Total accrued expenses | \$ 11,281 | \$ 9,572 |

(1) As of March 31, 2008 and December 31, 2007, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

NOTE H - NOTE PAYABLE

At March 31, 2008 and December 31, 2007, we had an unsecured note payable of \$1.0 million and \$1.5 million, respectively, payable in monthly installments of principal and interest of approximately \$174,600 that matures on September 1, 2008, bearing interest at 5.3%. This note payable was used to finance a portion of the Company's annual insurance premiums.

NOTE I - LONG-TERM DEBT

Long-term debt consisted of the following:

| | (in thousands) | |
|--|------------------|--------------|
| | March 31, | December 31, |
| | 2008 | 2007 |
| Revolving credit agreement (1) | \$ 61,200 | \$ 43,093 |
| Capitalized lease obligations (2) | 51,154 | 51,531 |
| | 112,354 | 94,624 |
| Less current maturities of capital leases | 25,463 | 24,412 |
| Long-term debt and capital leases, less current maturities of capital leases | \$ 86,891 | \$ 70,212 |

(1) Our Amended and Restated Senior Credit Facility provides for available borrowings of \$100.0 million, including letters of credit not exceeding \$25.0 million. Availability may be reduced by a borrowing base limit as defined in the Facility. At March 31, 2008, we had approximately \$32.6 million available

under the Facility. The Facility matures on September 1, 2010. The Facility can also be increased to \$175.0 million at our option, with the additional availability provided by the current lenders, at their election, or by other lenders. The Facility bears variable interest based on the agent bank's prime rate, or federal funds rate plus a certain percentage or London Interbank Offered Rate plus a certain percentage, which is determined based on our attainment of certain financial ratios. The interest rate on our borrowings under the Facility at March 31, 2008 was 5.2%. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. At March 31, 2008, the rate was 0.2% per annum. The Facility is collateralized by revenue equipment having a net book value of \$189.0 million at March 31, 2008, and all trade and other accounts receivable. We had outstanding letters of credit of approximately \$6.2 million at March 31, 2008. The Facility requires us to meet certain financial covenants and to maintain a minimum tangible net worth of approximately \$131.3 million at March 31, 2008. We were in compliance with these covenants at March 31, 2008. The covenants

would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. The carrying amount reported in the balance sheet for borrowings under the Facility approximates its fair value as the applicable interest rates fluctuate with changes in current market conditions.

- (2) Our capitalized lease obligations have various termination dates extending through September 2011 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 2.9% to 5.0% at March 31, 2008. The lease agreements require us to pay property taxes, maintenance and operating expenses.

NOTE J -LEASES AND COMMITMENTS

We routinely monitor our equipment acquisition needs and adjust our purchase schedule from time to time based on our analysis of factors such as new equipment prices, the condition of the used equipment market, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, durability of the equipment, equipment specifications and the availability of qualified drivers.

As of March 31, 2008, we had commitments for purchases of revenue equipment in the aggregate amount of approximately \$67.9 million for the remainder of 2008. In addition, we had purchase obligations of approximately \$1.0 million related to software and facility expansions contracted for the remainder of 2008.

NOTE K -INCOME TAXES

During the quarters ended March 31, 2008 and 2007, our effective tax rates were 24.5% and 90.7%, respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate varies in relation to the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases because aggregate per diem pay becomes smaller in relation to pre-tax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

We adopted the provisions of FIN 48 on January 1, 2007 and have analyzed filing positions in our federal tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2005, 2006 and 2007 tax years. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. At January 1, 2007, we had no unrecognized tax benefits and we have not recorded any through March 31, 2008. In addition, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

NOTE L -EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share is computed by adjusting the weighted average number of shares of Common Stock outstanding by Common Stock equivalents attributable to dilutive stock

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options and restricted stock. The computation of diluted earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except per share amounts)

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| | Three Months Ended | |
|---|--------------------|---------|
| | March 31, | 2007 |
| | 2008 | |
| Numerator: | | |
| Net (loss) income | \$ (1,946) | \$ 80 |
| Denominator: | | |
| Denominator for basic earnings per share – weighted average shares | 10,211 | 11,062 |
| Effect of dilutive securities: | | |
| Employee stock options (1) | -- | 68 |
| Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions | 10,211 | 11,130 |
| Basic (loss) earnings per share | \$ (0.19) | \$ 0.01 |
| Diluted (loss) earnings per share | \$ (0.19) | \$ 0.01 |
| Anti-dilutive employee stock options | 132 | 88 |

(1) The assumed exercise of employee stock options would have an antidilutive effect and therefore has been excluded from this computation of diluted earnings per share for the three months ended March 31, 2008.

NOTE M - LITIGATION

We are party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. We maintain insurance to cover liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to our long-term financial position, adverse results of one or more of these claims could have a material adverse effect on our financial position or results of operations in any given reporting period.

On May 22, 2006, a former independent sales agent filed a lawsuit against us entitled *All-Ways Logistics, Inc. v. USA Truck, Inc.*, in the U.S. District Court for the Eastern District of Arkansas, Jonesboro Division, alleging, among other things, breach of contract, breach of implied duty of good faith and fair dealing, and tortious interference with business relations. The plaintiff alleged that the Company breached and wrongfully terminated the commission sales agent agreement with it and improperly interfered with its business relationship with certain of its customers. In early August 2007, the jury returned an unfavorable verdict in this contract dispute. The jury held that the Company breached the contract and awarded the plaintiff damages of approximately \$3.0 million, which was accrued during the quarter ended September 30, 2007. In its December 4, 2007 order, the court denied substantially all of USA Truck's motions for post-trial relief and granted the plaintiff's motions for pre-judgment interest, attorney's fees and costs in an amount totaling approximately \$1.7 million, which was accrued during the fourth quarter. The court's order also awarded the plaintiff post-judgment interest, of which we accrued approximately \$0.05 million during the quarter ended March 31, 2008. On January 2, 2008, the Company filed an appeal of the verdict and the court's order.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements and information that are based on our current beliefs and expectations and assumptions we have made based upon information currently available. Forward-looking statements include statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, and may be identified by words such as "will," "could," "should," "may," "believe," "exp," "intend," "plan," "schedule," "estimate," "project" and similar expressions. These statements are based on current expectations and are subject to uncertainty and change. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will be realized. If one or more of the risks or uncertainties underlying such expectations materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. Among other things, we cannot assure you that we will be able to continue the recent positive trends identified in this report under the heading "Management's Discussion and Analysis of Financial Condition"

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and Results of Operations,” such as the improvement in our empty mile factor and driver turnover. Among the key factors that are not within our control and that have a direct bearing on operating results are increases in fuel prices, adverse weather conditions, increased regulatory burdens and the impact of increased rate competition. Our results have also been, and will continue to be, significantly affected by fluctuations in general economic conditions, as our tractor utilization is directly related to business levels of customers in a variety of industries. In addition, shortages of qualified drivers and intense or increased competition for drivers have adversely impacted our operating results and our ability to grow and will continue to do so. Results for any specific period could also be affected by various unforeseen events, such as unusual levels of equipment failure or vehicle accident claims. Additional risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, under the heading “Risk Factors” in Item 1A of that report, and updates, if any, to that information are included in Item 1A in Part II of this report.

All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

References to the “Company,” “we,” “us,” “our” and words of similar import refer to USA Truck, Inc. and its subsidiary.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report.

Overview

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand USA Truck, Inc., our operations and our present business environment. MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report. This overview summarizes the MD&A, which includes the following sections:

Our Business – a general description of our business, the organization of our operations and the service offerings that comprise our operations.

Critical Accounting Estimates – a discussion of accounting policies that require critical judgment and estimates.

Results of Operations – an analysis of our consolidated results of operations for the periods presented in our consolidated financial statements and a discussion of seasonality, the potential impact of inflation and fuel availability and cost.

Off-Balance Sheet Arrangements – a discussion of significant financial arrangements, if any, that are not reflected on our balance sheet.

Liquidity and Capital Resources – an analysis of cash flows, sources and uses of cash, debt, equity and contractual obligations.

Our Business

We operate in the for-hire truckload segment of the trucking industry. Customers in a variety of industries engage us to haul truckload quantities of freight, with the trailer we use to haul that freight being assigned exclusively to that customer’s freight until delivery. We have various service offerings, which we combine into two operating segments, through which we provide transportation services. We aggregate the financial data for these operating segments into one reportable segment for purposes of our public reporting.

The service offerings, which we previously designated as operating divisions, are classified into the Trucking operating segment and Strategic Capacity Solutions operating segment. Our Trucking operating segment includes those transportation services in which we use Company-owned tractors and owner-operator tractors. Our Strategic Capacity Solutions operating segment, which we previously referred to as USA Logistics, consists of services such as freight brokerage, transportation scheduling, routing and mode selection, which typically do not involve the use of Company-owned and owner-operator equipment. Both Trucking and Strategic Capacity Solutions have similar economic characteristics and are impacted by virtually the same economic factors as discussed elsewhere in this report.

Substantially all of our base revenue from both operating segments is generated by transporting, or arranging for the transportation of, freight for customers and is predominantly affected by the rates per mile received from our customers. For the three months ended March 31, 2008 and 2007, Trucking base revenue represented 96.4% and 97.8% of base revenue, respectively, with the remaining base revenue being generated through Strategic Capacity Solutions.

We generally charge customers for our services on a per-mile basis. Currently, our most challenging costs include recruiting, retaining and compensating qualified drivers, insurance and claims, fuel and capital equipment costs.

Trucking. Trucking includes the following two primary service offerings provided to our customers:

- *General Freight.* Our General Freight service offering provides truckload freight services as a short- to medium-haul common carrier. We have provided General Freight services since our inception and we derive the largest portion of our revenues from these services. Beginning with this quarter, we now include our regional freight operations as part of our General Freight service offering for reporting purposes. Regional freight refers to truckload freight services that involve a length of haul of approximately 500 miles.
- *Dedicated Freight.* Our Dedicated Freight service offering is a variation of our General Freight service, whereby we agree to make our equipment and drivers available to a specific customer for shipments over particular routes at specified times. In addition to serving specific customer needs, our Dedicated Freight service offering also aids in driver recruitment and retention.

Strategic Capacity Solutions. Strategic Capacity Solutions includes the following two primary service offerings provided to our customers:

- *Freight Brokerage.* Our Freight Brokerage service offering matches customer shipments with available equipment of other carriers when it is not feasible to use our own equipment.
- *Third Party Logistics.* Our Third Party Logistics service offering provides a variety of freight handling services for our customers, including arranging for the transportation of freight, scheduling, routing and mode selection.

Our Strategic Capacity Solutions service offerings provide complementary services to Trucking. We provide these services primarily to our existing Trucking customers, many of whom prefer to rely on a single carrier, or a small group of carriers, to provide all of their transportation needs. To date, a majority of the customers of Strategic Capacity Solutions have also engaged us to provide services through one or more of our Trucking service offerings.

During December 2007, we also began offering rail intermodal services. Intermodal shipping is a method of transporting freight using multiple modes of transportation between origin and destination, with the freight remaining in a trailer or special container throughout the trip. Our rail intermodal service offerings involve transporting, or arranging the transportation of, freight on trucks to a third party who uses a different mode of transportation, specifically rail, to complete the other portion of the shipment. The operating segment into which our rail intermodal service offerings are classified depends on whether or not Company equipment is used in providing the service. If Company equipment is used, those results are included in our Trucking operating segment. If Company equipment is not used, those results are included in our Strategic Capacity Solutions operating segment. For the quarter ended March 31, 2008, rail intermodal service offerings generated approximately 0.3% of total base revenue.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Actual results could differ from those estimates, and such differences could be material.

The most significant accounting policies and estimates that affect our financial statements include the following:

- *Revenue recognition and related direct expenses based on relative transit time in each period.* Revenue generated by Trucking is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, we recognize revenue pro rata

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based on relative transit time completed as a portion of the estimated total transit time in accordance with EITF 91-9, Method 5 issued by the Emerging Issues Task Force of the Financial Accounting Standards Board. Expenses are recognized as incurred.

Revenue generated by Strategic Capacity Solutions is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor.

Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

- *Selections of estimated useful lives and salvage values for purposes of depreciating tractors and trailers.* We operate a significant number of tractors and trailers in connection with our business. We may purchase this equipment or acquire it under leases. We depreciate purchased equipment on the straight-line method over the estimated useful life down to an estimated salvage or trade-in value. We initially record equipment acquired under capital leases at the net present value of the minimum lease payments and amortize it on the straight-line method over the lease term. Depreciable lives of tractors and trailers range from three years to ten years. We estimate the salvage value at the expected date of trade-in or sale based on the expected market values of equipment at the time of disposal.

We make equipment purchasing and replacement decisions on the basis of various factors, including, but not limited to, new equipment prices, the condition of the used equipment market, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, durability of the equipment, equipment specifications and the availability of drivers. Therefore, depending on the circumstances, we may accelerate or delay the acquisition and disposition of our tractors and trailers from time to time, based on an operating principle whereby we pursue trade intervals that economically balance our maintenance costs and expected trade-in values in response to the circumstances existing at that time. Such adjustments in trade intervals may cause us to adjust the useful lives or salvage values of our tractors or trailers. By changing the relative amounts of older equipment and newer equipment in our fleet, adjustments in trade intervals also increase and decrease the average age of our tractors and trailers, whether or not we change the useful lives or salvage values of any tractors or trailers. We also adjust depreciable lives and salvage values based on factors such as changes in prevailing market prices for used equipment. We periodically monitor these factors in order to keep salvage values in line with expected market values at the time of disposal. Adjustments in useful lives and salvage values are made as conditions warrant and when we believe that the changes in conditions are other than temporary. These adjustments result in changes in the depreciation expense we record in the period in which the adjustments occur and in future periods. These adjustments also impact any resulting gain or loss on the ultimate disposition of the revenue equipment. Management believes our estimates of useful lives and salvage values have been materially accurate as demonstrated by the insignificant amounts of gains and losses on revenue equipment dispositions in recent periods.

To the extent depreciable lives and salvage values are changed, such changes are recorded in accordance with the applicable provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3.

- *Estimates of accrued liabilities for claims involving bodily injury, physical damage losses, employee health benefits and workers' compensation.* We record both current and long-term claims accruals at the estimated ultimate payment amounts based on information such as individual case estimates, historical claims experience and an estimate of claims incurred but not reported. The current portion of the accrual reflects the amounts of claims expected to be paid in the next twelve months. In making the estimates we rely on past experience with similar claims, negative or positive developments in the case and similar factors. We do not discount our claims liabilities.
- *Stock option valuation.* The assumptions used to value stock options are dividend yield, expected volatility, risk-free interest rate, expected life and anticipated forfeitures. As we do not pay any dividends on our Common Stock, the dividend yield is zero. Expected volatility represents the measure used to project the expected fluctuation in our share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for our share price to increase over the expected life of the option. The risk-free interest rate is based on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option's contractual life. Anticipated forfeitures

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represent the number of shares under options we expect to be forfeited over the expected life of the options.

- *Accounting for income taxes.* Our deferred tax assets and liabilities represent items that will result in taxable income or a tax deduction in future years for which we have already recorded the related tax expense or benefit in our consolidated statements of income. Deferred tax accounts arise as a result of timing differences between when items are recognized in our consolidated financial

statements compared to when they are recognized in our tax returns. Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. 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. We periodically assess the likelihood that all or some portion of deferred tax assets will be recovered from future taxable income. To the extent we believe recovery is not probable, a valuation allowance is established for the amount determined not to be realizable. We have not recorded a valuation allowance at March 31, 2008, as all deferred tax assets are more likely than not to be realized.

We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. During the quarter ended March 31, 2008, we made no material changes in our assumptions regarding the determination of income tax liabilities. However, should our tax positions be challenged, different outcomes could result and have a significant impact on the amounts reported through our consolidated statements of income.

We periodically reevaluate these policies as circumstances dictate. Together these factors may significantly impact our consolidated results of operations, financial position and cash flow from period to period.

Results of Operations

Executive Overview

The following executive overview is presented comparing the financial results for the three months ended March 31, 2008 to the three months ended March 31, 2007, except as otherwise stated.

This quarter was characterized primarily by sluggish freight demand, industry-wide tractor overcapacity and rising fuel prices; all of which adversely impacted our earnings.

The rapid rise in diesel fuel costs during the quarter negatively impacted earnings by \$0.13 per share due to a 43.0% increase in our diesel fuel cost per gallon. Higher maintenance costs resulted primarily from an increase in the average age of our fleet and winter weather and negatively impacted earnings by \$0.06 per share as operations and maintenance expense increased 1.1 percentage points of base revenue.

Base Trucking revenue per tractor per week remained essentially unchanged despite the sluggish demand and tractor overcapacity, primarily because of a one percentage point improvement in empty miles.

We reduced our average Company-owned tractor fleet by 2.1% and reduced our driver turnover by 12.5 percentage points, both of which helped us decrease driver recruiting and training costs. The reduction in Company-owned tractors was offset by a corresponding 230.4% increase in our average owner-operator fleet, and those 53 additional owner operators coupled with significant growth in revenue generated from other services that typically do not involve the use of our equipment, positively impacted our wage, fuel and depreciation expense line items. However, the increase in revenue from service offerings not typically requiring the use of our equipment resulted in a corresponding increase in purchased transportation expense.

While cost discipline remains a priority, we are implementing a number of new internal initiatives as well as refocusing our efforts on existing initiatives to boost the velocity of freight flowing through our network, to diversify our service offerings and to address the root causes of our high insurance and claims expenses. In conjunction with those efforts to improve the efficiency of our operations, we are also making investments to improve the efficiency of our technological and human resources functions. Some of the results are as follows:

- Base revenue in our freight brokerage service grew 85.8% to \$3.2 million compared to the first quarter of 2007 (our goal is 100% year-over-year growth in 2008);
- Base revenue in our rail intermodal service grew from zero to \$0.3 million (our goal is \$2.0 million for the full year 2008);
- We redeployed 39 tractors from our General Freight operations into Dedicated Freight applications during the quarter (our goal is to redeploy 100 tractors by year-end 2008); and

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- We grew our owner-operator fleet by 22 tractors since December 2007 to 80 (our goal is 120 by year-end 2008).

We have taken steps to preserve cash during this downturn to protect a strong balance sheet that reflects \$9.0 million in cash and a 41.0% total debt, less cash, to total capitalization ratio.

Our progress toward better operating margins has been limited by short-term demands posed by the first quarter's difficult operating environment (such as the need to more closely manage cash flow, fuel consumption and maintenance costs).

Note Regarding Presentation

By agreement with our customers, and consistent with industry practice, we add a graduated surcharge to the rates we charge our customers as diesel fuel prices increase above an agreed-upon baseline price per gallon. The surcharge is designed to approximately offset increases in fuel costs above the baseline. Fuel prices are volatile, and the fuel surcharge increases our revenue at different rates for each period. We believe that comparing operating costs and expenses to total revenue, including the fuel surcharge, could provide a distorted comparison of our operating performance, particularly when comparing results for current and prior periods. Therefore, we have used base revenue, which excludes the fuel surcharge revenue, and instead taken the fuel surcharge as a credit against the fuel and fuel taxes (for the portion of fuel surcharge related to our Trucking operating segment) and purchased transportation (for the portion of fuel surcharge related to our Strategic Capacity Solutions operating segment) line items in the table setting forth the percentage relationship of certain items to base revenue below.

We do not believe that a reconciliation of the information presented on this basis and corresponding information comparing operating costs and expenses to total revenue would be meaningful. Data regarding both total revenue, which includes the fuel surcharge, and base revenue, which excludes the fuel surcharge, is included in the Consolidated Statements of Income included in this report.

Base revenues from our Strategic Capacity Solutions operating segment, consisting primarily of base revenues from our Freight Brokerage and Third Party Logistics service offerings, have fluctuated in recent periods. These services do not involve the use of our tractors and trailers. Therefore, an increase in these revenues tends to cause expenses related to our operations that do involve our equipment—including depreciation and amortization expense, operations and maintenance expense, salaries, wages and employee benefits and insurance and claims expense—to decrease as a percentage of base revenue, and a decrease in these revenues tends to cause those expenses to increase as a percentage of base revenue. Since changes in Freight Brokerage and Third Party Logistics revenues generally affect all such expenses, as a percentage of base revenue, we do not specifically mention it as a factor in our discussion of increases or decreases in those expenses in the period-to-period comparisons below. Base revenues from our Strategic Capacity Solutions operating segment increased approximately 72.4% in the first quarter of 2008 compared to the same quarter of 2007.

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Relationship of Certain Items to Base Revenue

The following table sets forth the percentage relationship of certain items to base revenue, for the periods indicated. The period-to-period comparisons below should be read in conjunction with this table and our Consolidated Statements of Income and accompanying notes.

| | Three Months Ended | | |
|---------------------------------------|--------------------|-------|---|
| | March 31, | | |
| | 2008 | 2007 | |
| | 100.0 | 100.0 | % |
| Base revenue | | | |
| Operating expenses and costs: | | | |
| Salaries, wages and employee benefits | 41.7 | 43.1 | |
| Fuel and fuel taxes (1) | 18.0 | 16.5 | |
| Depreciation and amortization | 12.5 | 12.6 | |
| Insurance and claims | 7.8 | 7.8 | |
| Operations and maintenance | 7.3 | 6.2 | |
| Purchased transportation | 7.2 | 3.7 | |
| Operating taxes and licenses | 1.6 | 1.7 | |

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| | | | | |
|--|--------------|---|-------|---|
| Communications and utilities | 1.1 | | 1.0 | |
| Gain on disposal of revenue equipment, net | -- | | (0.4) | |
| Other | 4.3 | | 5.6 | |
| Total operating expenses and costs | 101.5 | | 97.8 | |
| Operating (loss) income | (1.5) | | 2.2 | |
| Other expenses: | | | | |
| Interest expense | 1.2 | | 1.2 | |
| Other, net | -- | | 0.1 | |
| Total other expenses, net | 1.2 | | 1.3 | |
| (Loss) income before income taxes | (2.7) | | 0.9 | |
| Income tax (benefit) expense | (0.7) | | 0.8 | |
| Net (loss) income | (2.0) | % | 0.1 | % |

(1) Net of fuel surcharge revenue.

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Results of Operations – Combined Services

Our base revenue increased 2.8% from \$94.5 million to \$97.1 million, for the reasons addressed in the Trucking and the Strategic Capacity Solutions sections, below.

Net loss for all divisions was \$1.9 million as compared to a net income of \$0.08 million, or 0.1% of base revenue in 2007.

Overall, our operating ratio increased by 3.7 percentage points of base revenue to 101.5% as a result of the following factors:

- Salaries, wages and employee benefits decreased 1.4 percentage points of base revenue primarily due to a decrease in the relative proportion of our driver population represented by Company-employed drivers and a corresponding increase in our owner-operator fleet from 23 to 76 tractors, or 230.4%.
- Fuel and fuel taxes increased 1.5 percentage points of base revenue primarily due to a 13.9% increase in net fuel price per gallon (fuel price per gallon minus fuel surcharge recovery) and a 0.8% decrease in miles per gallon. These factors were offset by an improvement of 0.8% in out-of-route miles and the above-mentioned increase in our owner-operator fleet.
- Operations and maintenance increased by 1.1 percentage points of base revenue primarily due to a 21.3% increase in fleet maintenance costs. The increase in fleet maintenance costs was caused partially by the increase in the average age of our tractors from 20.8 months in 2007 to 24.8 months in 2008 and of our trailers from 36.8 months in 2007 to 43.8 months in 2008.
- Purchased transportation increased by 3.5 percentage points of base revenue due to the increase in the average size of our owner-operator fleet from 23 in 2007 to 76 in 2008, growth in total revenue, which includes fuel surcharge, from our Mexican cross-border business from \$7.5 million in 2007 to \$13.8 million in 2008 and growth in Freight Brokerage base revenue from \$1.7 million in 2007 to \$3.2 million in 2008.

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- Other operating expenses decreased by 1.3 percentage points of base revenue primarily due to a decrease in driver recruiting costs of 37.5%. This decrease resulted from a combination of a more accommodating market for hiring drivers and our 12.5 percentage point reduction in driver turnover to its lowest level in six years.
- Our effective tax rate decreased from 90.7% in 2007 to 24.5% in 2008. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Because per diem payments cause a portion of a driver's pay to be nondeductible, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

Results of Operations – Trucking

Key Operating Statistics:

Trucking Operations

| | Three Months Ended March 31, | |
|--|------------------------------|----------|
| | 2008 | 2007 |
| Total miles (<i>in thousands</i>) (1) | 73,980 | 73,500 |
| Empty mile factor | 11.1 | 12.1 |
| Average number of tractors | 2,558 | 2,558 |
| Average miles per tractor per period | 28,921 | 28,733 |
| Average miles per tractor per week | 2,225 | 2,235 |
| Average miles per trip (2) | 733 | 790 |
| Base Trucking revenue per tractor per week | \$ 2,816 | \$ 2,811 |
| Number of tractors at end of period | 2,566 | 2,577 |

(1) Total miles include both loaded and empty miles.

(2) Average miles per trip is based upon loaded miles divided by the number of Trucking shipments.

Base Revenue

Base revenue from Trucking grew by 1.3% to \$93.6 million. The increase was primarily the result of several factors:

- The empty mile factor decreased one percentage point to 11.1% in 2008 from 12.1% in 2007.
- An additional work day due to leap year.
- The addition of rail intermodal service offerings.

Overall, the average size of our Trucking segment's tractor fleet remained unchanged. We reduced the average size of the Company-owned tractor fleet by 2.1% to 2,482 tractors and grew our average owner-operator fleet by 230.4% to 76 tractors.

Results of Operations – Strategic Capacity Solutions

Base revenue from Strategic Capacity Solutions increased by 72.4% to \$3.5 million primarily as a result of an 85.8% increase in our Freight Brokerage base revenue. Our Third Party Logistics service offering saw a 40.6% decrease in base revenue. Base revenue from the portion of our rail intermodal service offerings that is classified into our Strategic Capacity Solutions operating segment grew from zero to \$0.1 million.

Seasonality

In the trucking industry, revenues generally decrease as customers reduce shipments during the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses increase due primarily to decreased fuel efficiency and increased maintenance costs. Future revenues could be impacted if customers, particularly those with manufacturing operations, reduce shipments due to temporary plant closings. Historically, many of our customers have closed their plants for maintenance or other reasons during January and July.

Inflation

Most of our operating expenses are inflation sensitive, and we have not always been able to offset inflation-driven cost increases through increases in our revenue per mile and our cost control efforts. The effect of

inflation-driven cost increases on our overall operating costs is not expected to be greater for us than for our competitors.

Fuel Availability and Cost

The motor carrier industry is dependent upon the availability of fuel. Fuel shortages or increases in fuel taxes or fuel costs have adversely affected our profitability and will continue to do so. Fuel prices have fluctuated widely, and fuel prices and fuel taxes have generally increased in recent years. We have not experienced difficulty in maintaining necessary fuel supplies, and in the past we generally have been able to partially offset increases in fuel costs and fuel taxes through increased freight rates and through a fuel surcharge that increases incrementally as the price of fuel increases above an agreed upon baseline price per gallon. Typically, we are not able to fully recover increases in fuel prices through rate increases and fuel surcharges, primarily because those items do not provide any benefit with respect to empty and out-of-route miles, for which we typically do not receive compensation from customers. We do not have any long-term fuel purchase contracts and we have not entered into any other hedging arrangements that protect us against fuel price increases.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. From time to time, we enter into operating leases relating to facilities and office equipment that are not reflected in our balance sheet.

Liquidity & Capital Resources

The continued growth of our business has required significant investments in new revenue equipment. We have financed new tractor and trailer purchases predominantly with cash flows from operations, the proceeds from sales or trades of used equipment, borrowings under our Amended and Restated Senior Credit Facility and capital lease purchase arrangements. We have historically met our working capital needs with cash flows from operations and with borrowings under our Facility. We use the Facility to minimize fluctuations in cash flow needs and to provide flexibility in financing revenue equipment purchases. At March 31, 2008, we had approximately \$32.6 million available under our Facility and \$62.5 million of availability for new capital leases under existing lease facilities, \$7.2 million of which was funded on April 15, 2008. Management is not aware of any known trends or uncertainties that would cause a significant change in our sources of liquidity. We expect our principal sources of capital to be sufficient to finance our operations, annual debt maturities, lease commitments, letter of credit commitments, stock repurchases and capital expenditures for the next several years. There can be no assurance, however, that such sources will be sufficient to fund our operations and all expansion plans for the next several years, or that any necessary additional financing will be available, if at all, in amounts required or on terms satisfactory to us.

Cash Flows

| | (in thousands) | |
|---|--------------------|-----------|
| | Three Months Ended | |
| | March 31, | |
| | 2008 | 2007 |
| Net cash provided by operating activities | \$ 8,372 | \$ 12,581 |
| Net cash used in investing activities | (18,271) | (6,805) |
| Net cash provided by (used in) financing activities | 10,898 | (7,646) |

Cash provided by operations decreased \$4.2 million for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. The change was primarily due to a \$2.0 million decrease in net income, a larger increase in receivables and a smaller increase in deferred taxes and trade accounts payable during the first three months of 2008 than in the first three months of 2007.

Cash used in investing activities increased \$11.5 million for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 due to an increase in our net expenditures for revenue equipment.

Cash provided by financing activities was \$10.9 million for the three months ended March 31, 2008 as compared to cash used by financing activities of \$7.6 million for the three months ended March 31, 2007. This \$18.5 million difference resulted primarily from a reduction of \$7.9

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million in the amount used for repurchases of Common Stock, a \$9.8 million increase in net borrowings on our credit facility, and a \$1.5 million increase in outstanding bank drafts payable, partially offset by a \$0.5 million increase in payments on capitalized lease obligations.

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Debt

On September 1, 2005, we entered into an Amended and Restated Senior Credit Facility. The Facility provides a maximum borrowing amount of \$100.0 million, subject to a borrowing base calculation, it includes a sublimit of up to \$25.0 million for letters of credit, and it matures on September 1, 2010.

The Facility is collateralized by revenue equipment having a net book value of approximately \$189.0 million at March 31, 2008, and all trade and other accounts receivable. The Facility provides an accordion feature allowing us to increase the maximum borrowing amount by up to an additional \$75.0 million in the aggregate in one or more increases no less than six months prior to the maturity date, subject to certain conditions. The maximum borrowing including the accordion feature may not exceed \$175.0 million without the consent of the lenders. At March 31, 2008, \$61.2 million was outstanding under the Facility.

The Facility bears variable interest based on the agent bank's prime rate, the federal funds rate plus a certain percentage or the London Interbank Offered Rate plus a certain percentage, which is determined based on our attainment of certain financial ratios. For the three months ended March 31, 2008, the effective interest rate was 5.2%. A quarterly commitment fee is payable on the unused credit line at a rate which is determined based on our attainment of certain financial ratios. At March 31, 2008, the rate was 0.2% per annum.

The Facility contains various covenants, which require us to meet certain quarterly financial ratios and to maintain a minimum tangible net worth of approximately \$131.3 million at March 31, 2008. In the event we fail to cure an event of default, the loan can become immediately due and payable. As of March 31, 2008, we were in compliance with the covenants.

Certain leases contain cross-default provisions with other financing agreements, including the Senior Credit Facility, of the Company.

Equity

At March 31, 2008, we had stockholders' equity of \$141.4 million and total debt including current maturities of \$113.4 million, resulting in a total debt, less cash, to total capitalization ratio of 41.0% compared to 36.8% at December 31, 2007.

Purchases and Commitments

As of March 31, 2008, our capital expenditures forecast, net of proceeds from the sale or trade of equipment, was \$53.7 million for the remainder of 2008, approximately \$43.6 million of which relates to revenue equipment acquisitions. To the extent further capital expenditures are feasible based on our debt covenants and operating cash requirements, we would use the balance of \$10.1 million primarily for property acquisitions, facility construction and improvements and maintenance and office equipment. We routinely evaluate our equipment acquisition needs and adjust our purchase and disposition schedules from time to time based on our analysis of factors such as freight demand, the availability of drivers and the condition of the used equipment market. During the three months ended March 31, 2008, we made \$25.5 million of net capital expenditures, including \$23.4 million for revenue equipment purchases and \$2.1 million for facility expansions and other expenditures. The following table represents our outstanding contractual obligations at March 31, 2008, excluding letters of credit:

| Payments Due By Period (in thousands) | Less than 1 | More than 5 | |
|--|-------------|-------------|-----------|
| | year | 1-3 years | 3-5 years |
| Total | | | |

Contractual Obligations:

| | | | | | |
|--------------------------------|------------|-----------|-----------|----------|--------|
| Long-term debt obligations (1) | \$ 61,200 | \$ -- | \$ 61,200 | \$ -- | \$ -- |
| Capital lease obligations (2) | 54,295 | 27,100 | 20,850 | 6,345 | -- |
| Purchase obligations (3) | 68,946 | 68,946 | -- | -- | -- |
| Rental obligations | 1,692 | 746 | 538 | 71 | 337 |
| Total | \$ 186,133 | \$ 96,792 | \$ 82,588 | \$ 6,416 | \$ 337 |

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- (1) Long-term debt obligations, excluding letters of credit in the amount of \$6.2 million, consist of our Amended and Restated Senior Credit Facility, which matures on September 1, 2010.
- (2) Includes interest payments not included in the balance sheet.
- (3) Purchase obligations include commitments to purchase \$67.9 million of revenue equipment of which commitments for \$47.4 million are cancelable by us upon advance written notice provided 75 days prior to the scheduled delivery date of the equipment.

New Accounting Pronouncements

See “Note F – New Accounting Pronouncements” to the consolidated financial statements included in this Form 10-Q for a description of the most recent accounting pronouncements and their effect, if any.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We experience various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices.

Interest Rate Risk. We are exposed to interest rate risk primarily from our Amended and Restated Senior Credit Facility. The Facility provides for borrowings that bear interest at variable rates based on the agent bank’s prime rate, the federal funds rate plus a certain percentage or the London Interbank Offered Rate plus a certain percentage. At March 31, 2008, we had \$67.4 million outstanding pursuant to our Facility including letters of credit of \$6.2 million. Assuming the outstanding balance at March 31, 2008 were to remain constant, a hypothetical one-percentage point increase in interest rates applicable to the Facility would increase our interest expense over a one-year period by approximately \$0.6 million.

Foreign Currency Exchange Rate Risk. We require customers to pay for our services in U.S. dollars. Although the Canadian government makes certain payments, such as tax refunds, to us in Canadian dollars, any foreign currency exchange risk associated with such payments is not material.

Commodity Price Risk. Fuel prices have fluctuated greatly and have generally increased in recent years. In some periods, our operating performance was adversely affected because we were not able to fully offset the impact of higher diesel fuel prices through increased freight rates and fuel surcharges. We cannot predict the extent to which high fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. We do not have any long-term fuel purchase contracts, and we have not entered into any other hedging arrangements, that protect us against fuel price increases. Volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. These costs could also exacerbate the driver shortages our industry experiences by forcing independent contractors to cease operations.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. We maintain insurance covering liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to our long-term financial position, adverse results of one or more of these claims could have a material adverse effect on our consolidated financial position or results of operations in any given reporting period.

On May 22, 2006, a former independent sales agent filed a lawsuit against us entitled *All-Ways Logistics, Inc. v. USA Truck, Inc.*, in the U.S. District Court for the Eastern District of Arkansas, Jonesboro Division, alleging, among other things, breach of contract, breach of implied duty of good faith and fair dealing, and tortious interference with business relations. The plaintiff alleged that we breached and wrongfully terminated our commission sales agent agreement with it and improperly interfered with its business relationship with certain of its customers. In early August, the jury returned an unfavorable verdict in this contract dispute. The jury held that we breached the contract and awarded the plaintiff damages of approximately \$3.0 million, which was accrued during the quarter ended September 30, 2007. In its December 4, 2007 order, the court denied substantially all of USA Truck's motions for post-trial relief and granted the plaintiff's motions for pre-judgment interest, attorney's fees and costs in an amount totaling approximately \$1.7 million, which was accrued during the fourth quarter. The court's order also awarded the plaintiff post-judgment interest, of which we accrued approximately \$0.05 million during the quarter ended March 31, 2008. On January 2, 2008, we filed an appeal of the verdict and the court's order.

ITEM 1A. RISK FACTORS

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, under the heading "Risk Factors" in Item 1A of that report. There were no material changes in these risks during the three months ended March 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**(a) Recent unregistered sales of securities.**

None.

(b) Use of proceeds from registered sales of securities.

None.

(c) Purchases of equity securities by the issuer and affiliated purchasers.

On January 24, 2007, we publicly announced that our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding Common Stock over a three-year period ending January 24, 2010. We may make Common Stock purchases under this program on the open market or in privately negotiated transactions at prices determined by our Chairman of the Board or President. During the three months ended March 31, 2008, we did not repurchase any shares of our Common Stock. Our current repurchase authorization has 1,165,901 shares remaining.

The following table sets forth information regarding shares of Common Stock purchased or that may yet be purchased by us under the current authorization during the first quarter of 2008.

Issuer Purchases of Equity Securities

Period

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| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|-------------------------------------|---------------------------------|--|---|
| January 1 – January 31, 2008 | -- | \$ -- | -- | 1,165,901 |
| February 1 – February 29, 2008 | -- | -- | -- | 1,165,901 |
| March 1 – March 31, 2008 | -- | -- | -- | 1,165,901 |
| Total | -- | \$ -- | -- | 1,165,901 |

We may reissue repurchased shares under our equity compensation plans or as otherwise directed by the Board of Directors.

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We are required to include in the table above purchases made by us or by an affiliated purchaser. For this purpose, “affiliated purchaser” does not include our Employee Stock Purchase Plan, which provides that shares purchased for employees under that Plan may be shares provided by us or shares purchased on the open market. Open market purchases under that Plan are made by the administrator of the Plan, which is an agent independent of us. Any shares purchased by the administrator are not counted against the number of shares available for purchase by us pursuant to the repurchase authorization described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USA Truck, Inc.
(Registrant)

Date: May 2, 2008

By: /s/ CLIFTON R. BECKHAM
Clifton R. Beckham
President and Chief Executive Officer

Date: May 2, 2008

By: /s/ DARRON R. MING
Darron R. Ming
*Vice President, Finance, Chief
Financial Officer and Treasurer*

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INDEX TO EXHIBITS

USA TRUCK, INC.

Exhibit

| Number | Exhibit |
|---------------|---|
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