
**MARYLAND LOTTERY and
GAMING CONTROL COMMISSION**

1800 Washington Blvd., Suite 330, Baltimore, Maryland 21230

COMMISSION REPORT



Radio One, Inc.

Principal Entity
(MGM National Harbor)

Report Date: November 1, 2016

Public Report

EXECUTIVE SUMMARY

Introduction

As a prerequisite for qualification as a Principal Entity an applicant must submit a Principal Entity Disclosure Form to the Maryland Lottery and Gaming Control Commission (“the Commission”). A principal entity must prove to the Commission that it meets the qualification criteria set forth in the Annotated Code of Maryland, State Gov’t Article (“SG”), § 9-1A-01, *et seq.* (“the Gaming Law”). Specifically, an applicant must prove, by clear and convincing evidence, that it is qualified under SG § 9-1A-07(c)(7)(i) through (v), and not disqualified under SG § 9-1A-08(d). An applicant must provide all information to the Commission that is necessary for a qualification determination as to the principal entity and its principals.

Following the receipt of the required applications for Radio One, Inc. and its associated principals on August 30, 2016, the Maryland Lottery and Gaming Control Agency (“MLGCA,” “we” or “our”), conducted a background investigation of Radio One, Inc. and its associated principals in connection with its application for qualification as a principal entity of MGM National Harbor.

Background

Radio One, Inc., (the “Company”) was incorporated in Delaware on July 15, 1996. Radio One, Inc. and its subsidiaries is an urban-oriented, multi-media company that primarily targets African-American and urban consumers, and its core business is its radio broadcasting franchise. The Company operates in four reportable segments which include Radio Broadcasting, Reach Media, Internet, and Cable Television. As of December 31, 2015, Radio One, Inc. owned and/or operated 56 broadcast stations located in 16 urban markets in the United States. The Company is currently registered or authorized to do business in fourteen states and in the District of Columbia. Radio One, Inc.’s principal executive offices are located at 1010 Wayne Avenue, Silver Spring, Maryland. Both Radio One, Inc. and its wholly owned subsidiary Radio One Entertainment Holdings, LLC, have submitted a Principal Entity Disclosure Form to the Maryland Lottery and Gaming Control Commission.

Ownership of Radio One, Inc.

Radio One, Inc.’s common stock is divided into four classes (i.e., Class A, Class B, Class C, and Class D). The Company’s Class A and Class D common stock is publically-traded on NASDAQ under the ticker symbols “ROIA” and “ROIAK”, respectively. All voting rights are held under the

Class A and Class B common stock, with each share of Class A common stock entitled to one vote, and each share of Class B common stock entitled to ten votes. The Class C and Class D common stock has no voting rights.

The Alfred C. Liggins, III Dynastic Trust also holds 338,808 shares of the Class D common stock (0.83%) and The Catherine L. Hughes Dynastic Trust holds 520,404 of the Class D common stock (1.27%). Alfred C. Liggins, III, President, Chief Executive Officer, and Director of the Company, and Catherine L. Hughes, Chairperson and Secretary of the Company, have each submitted a Principal Employee Application to the Commission.

MGM National Harbor Investments

Radio One Entertainment Holdings, LLC, a wholly owned direct subsidiary of Radio One, Inc., was formed in Delaware on July 20, 2014 specifically to hold Radio One, Inc.'s unit interests in MGM National Harbor, LLC (MGM). Radio One Entertainment Holdings, LLC has made an initial \$5 million investment in MGM National Harbor, and currently owns 20 Class A-1 Units of MGM National Harbor, LLC. Radio One, Inc. informed the MLGCA that it was given the legal right to make an additional investment into MGM National Harbor, and the Company will make the additional investment through Radio One Entertainment Holdings, LLC. The Company reports that Radio One Entertainment Holdings intends to make an additional

\$35 million investment in MGM National Harbor and acquire another 140 Class A-1 Units of MGM. The Company advised that Radio One, Inc. plans to fund the additional \$35 million investment using its own cash reserves and by initiating an intercompany loan from Radio One, Inc. to Radio One Entertainment Holdings, LLC. The total \$40 million investment in MGM National Harbor will be reflected on the balance sheet of Radio One Entertainment Holdings, LLC. The Company further advised that if Radio One, Inc. decided to make an additional investment of less than \$35 million, the number of additional Class A-1 Units acquired would be proportionally reduced.

The Company's ownership of MGM's Class A-1 Units is purely an economic interest as these Units bear no voting rights. Assuming the full exercise of the Company's option to purchase the additional 140 Class A-1 Units, the Company would receive the right, in the aggregate, to a Preferred Distribution in an amount equal to 1.0% of MGM's net gaming revenues.

Discussion of Financial Performance

We performed a detailed analysis of Radio One, Inc.'s operating performance and financial condition for the calendar years ending December 31, 2011 through December 31, 2015. We reviewed Radio One, Inc.'s Revenue and Expenses and its Liquidity and Cash Flow.

Conclusion

Radio One, Inc.'s overall financial performance during the review period can be characterized as weak. The Company has incurred net losses each year since 2012 due in part to high non-cash expenses and interest expense. Although total revenue increased slightly over the period reviewed, revenue declines in certain operating segments occurred due to adverse economic conditions and changes in media consumer activity. These declines are prevalent mostly in its core radio broadcasting segment which has declined consistently over the past four years due to a number of industry factors including the entry of new competitors in select markets. The Company's operating expenses consumed a relatively high percentage of its revenue over the entire period as it incurred significant charges for depreciation, amortization, and impairment of intangible assets due mainly to lower market revenue estimates and lower market growth projections. Radio One, Inc.'s financial condition also deteriorated over the five-year period reviewed due to a slight decrease in total assets coupled with a 33% increase in total liabilities. The Company is highly leveraged and long-term debt increased substantially over the review period, most notably as Radio One, Inc. incurred debt to finance its investment in TV One. Despite its poor operating performance and weakening financial condition over the past five years, Radio One, Inc. has generated positive cash flows from operations and

has had no difficulty satisfying its short-term financial demands.

Additionally, the Company's financial performance rebounded in the first half of calendar year 2016 and its financial condition improved as well. This is particularly important as Radio One, Inc. prepares to make the additional investment of \$35 million in MGM National Harbor using its own available cash reserves. It does not appear that this additional investment will have an undue adverse impact on the Company's finances. Radio One, Inc. believes that the additional investment in MGM National Harbor coupled with the growth potential of TV One will provide the Company with long-term additional free cash flow that will be used to deleverage and establish better borrowing terms. Radio One, Inc.'s auditors have not expressed any concern with the Company's financial condition, and there are no overwhelming factors that would lead us to conclude that Radio One, Inc. is financially unsuitable for licensure as a Principal Entity.

Findings

The MLGCA conducted a complete and thorough background investigation as authorized under the Gaming Law by analyzing corporate records and documents, scrutinizing the business operations, practices, and transactions of Radio One, Inc. and conducting interviews of key personnel, focusing on required qualification criteria involving integrity and financial

stability. MLGCA adhered to well-defined and approved investigative protocols in assembling the factual information incorporated in this report. The results of the investigation for the specific qualification criteria enunciated in SG §§ 9-1A-07(c)(7), 9-1A-08(d) are summarized as follows:

1) Financial stability, integrity and responsibility

A comprehensive review was conducted of all of the consolidated financial statements for the last five years. The Applicant satisfies the standards for financial stability, integrity and responsibility. MLGCA also concludes that all of the individual qualifiers (principals) satisfy the Gaming Law's qualification criteria in connection with Principal Entity Qualification Application.

2) Integrity of financial backers, investors, mortgages, bondholders, and other holders of indebtedness

Based on our review, there are no material issues involving the known financial backers of the Applicant.

3) Good character, honesty, and integrity

MLGCA found that the Applicant possesses the requisite good character, honesty and integrity. No significant issues surfaced concerning the qualifications of the Applicant or its individual qualifiers. There were no

material issues discovered pertaining to Radio One, Inc.'s record of regulatory compliance or litigation matters.

4) Sufficient business ability and experience

The Applicant has established that it possesses the requisite business ability and experience.

5) Potential Disqualifying factors

The Applicant is not disqualified from being qualified as a Principal Entity of MGM National Harbor based on any of the criteria listed in SG § 9-1A-08(d).

Applicant and Principal Entities

The applicant, Radio One, Inc. and Radio One Entertainment Holdings, LLC, satisfy the applicable qualification criteria under SG § 9-1A-07(c)(7), and are not disqualified under SG § 9-1A-08(d).

Principal Qualifiers

We identified the following natural person qualifiers (“principals”) who are associated with Radio One, Inc. and Radio One Entertainment Holdings, LLC. We conducted an extensive due diligence investigation on each qualifier, as described in our full report. We found that these principals have

satisfied the applicable qualification criteria under SG § 9-1A-07(c)(7), and that none are disqualified under SG § 9-1A-08(d).

1. Catherine Liggins Hughes- Chairperson of the Board / Secretary
2. Alford Liggins III- President and CEO

Conclusions and Opinions

MLGCA's investigation has confirmed that the Applicant has sufficient financial resources and found no derogatory information regarding the Applicant's qualifications. Based on the criteria in SG §§ 9-1A-07(c)(7) and 9-1A-08(d), we conclude that the Applicant and its principals have established by clear and convincing evidence their qualifications as a Principal Entity for MGM National Harbor.